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EXAMINING THE COMPETITIVE POSITION OF U.S. AGRICULTURE IN THE CURRENT WORLD ENVIRONMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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EXAMINING THE COMPETITIVE POSITION OF U.S. AGRICULTURE IN THE CURRENT WORLD ENVIRONMENT

THURSDAY, FEBRUARY 7, 1985

U.S. SENATE, SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,

Washington, DC.

The subcommittee met at 9 a.m., in room 328–A, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Zorinsky, and Dixon.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. We are holding this hearing today to discuss the U.S. position in the current world market for agricultural commodities. We find ourselves today with an agricultural sector that is having deep problems. Yesterday evening the President quoted figures showing that our farm program costs have quadrupled in recent years. And yet I know many farmers in distress. The best way to help farmers is not by expansion, but by making fundamental reforms, keeping interest rates down and knocking down the foreign trade barriers to American farm exports. That would be a very desirable goal, and whether or not we can achieve all those things and whether our goods will be competitive in a world market is the subject of this morning's hearing. In the 1970's we did very well. We had lower interest rates, had a strong economy, and a low value on the dollar. Exports expanded from $4.5 billion to $6.5 billion. Since then, things have changed.

So, the purpose of the hearing is to examine what is going on in the export market in several of our agricultural commodities, to determine whether the United States is no longer competitive in these product markets and, if not, why not? If we are not getting a fair shake in the market, what can we do to obtain that?

Here are some examples of the growing strength of our competitors in the world market: From June to December 1984 the European Community authorized the export of 3.8 million tons of barley, compared to 749,000 tons in the same period a year ago. India is an exporter of wheat and by the end of the 1984–85 growing season, some East European countries may also become exporters of wheat. Since these examples indicate that other countries are exporting to

our detriment, and I am particularly interested in possible changes in U.S. agricultural policy, I am looking forward to this hearing and to achieving a better understanding of whether the problem lies with American wheat or whether it is the Europeans or others subsidizing their exports. The problem could be a combination of factors, including the interest rate. We are here to examine that, because an important element of the 1985 farm bill is going to be an export provision that will probably strengthen the hand of the Secretary, since there is such a feeling, I believe, on this committee that we are not getting a fair shake in the world market.

Our first witness this morning is Hon. Daniel G. Amstutz, Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture.

I see that Senator Zorinsky has come in. Senator Zorinsky, do you have any opening remarks?

Senator ZORINSKY. No.

STATEMENT OF HON. DANIEL G. AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. AMSTUTZ. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss with you a very important issue, the competitiveness of U.S. agricultural products in world trade.

For American agriculture to prosper, it must be able to trade in world markets. Our exports have not fared well in the recent past, and prospects for the near future are not much improved.

The volume of U.S. farm exports is expected to rise for the first time in 5 years this fiscal year—up 4 percent to almost 150 million tons—but lower prices are expected to cause a decline of 4 percent in value to $36.5 billion.

Numbers like those compare with the record volume of U.S. farm exports of 163.9 million tons set in 1979–80 and the record value of almost $44 billion set in 1980–81.

Total world trade in agricultural products also declined during this period. The declines occurred for reasons that are well known—recession, the OPEC bust that greatly diminished Third World buying power, and others—but U.S. export trade declined faster and further, and the question is why.

The answer starts with the rapid growth of food demand and farm exports in the 1970's—years of dramatic gains when new export records were set year after year.

I am afraid that those of us in industry and in the Government assumed then that sharply rising consumption was a fixture on the global scene. We assumed that the short-term trend in consumption was permanent, and it therefore followed in our view that world trade figures would grow and that U.S. exports would continue to grow at the same rate.

Production and marketing plans were made and a farm program enacted based largely on those conceptions of the future.

It did not happen that way. Consumption growth has lagged, production has not been adjusted to the realities of consumption and that has put us in trouble. Production around the world is far more

than what is being consumed, and at the same time trade is growing at a slower rate than consumption.

This combination creates a highly competitive climate for trade, one that is advantageous for importers and of some expense to exporters. The question then is: Why does production among our export competitors continue to increase relative to consumption and trade?

To continue to produce in a surplus situation and competitive environment, they must feel that they have a competitive edge. If that is so, what is the edge?

Many say it is the strong U.S. dollar. The dollar has appreciated by about 40 percent against the currencies of 14 industrial countries since 1980 in nominal terms, and its strength has created some of our problems.

While I do not question the current negative impact of a strong dollar, I do not believe that it is a significant factor in any long-term decisions that are made by competing exporters.

Our own farm programs are far more important. Currently, our price support system provides our competitors with price protection that they could get in no other way.

They know that we will not sell below the price support loan level. To the extent that they can produce and sell at less than our loan level, they have clear sailing against competing commodities from the United States and they are taking advantage of it.

Certainly that is the case with Canada, Australia, and Argentina, leading grain competitors who are waging intensive marketing campaigns worldwide.

Argentina, for one example, with wheat priced at $112 a ton—about $30 below that of the United States—is making substantial sales to countries in South America, most noticeably Peru, an exclusive U.S. market for several years past.

Australia, for another, is landing feed wheat in Korea at roughly $20 per ton below the price of U.S. corn. As one result of these Australian sales, U.S. shipments of corn to Korea this year may be less than half the level of 2 years ago.

The benefits conferred on the European Community by the U.S. price floors are somewhat different than those accorded to countries situated like Canada, Australia, and Argentina but they are no less profitable.

The Community supports farm prices far above world levels and subsidizes excess production into export. The subsidy payments represent the difference between the EC domestic price and the world market price, so U.S. loan levels provide a lid on EC outlays for export subsidies, reducing EC budget outlays to finance export subsidies.

The situation of overproduction and underconsumption in world trade has occurred before. There is nothing new in world agricultural production outstripping demand.

But when this occurred in years past, the United States, as the world's leading producer and trader, has reduced production to help move supply and demand into closer balance, and it has worked.

This is no longer the case—a fact clearly illustrated by the experience with PIK when the largest U.S. acreage reduction in history

failed to significantly affect world prices or trade. That has been the biggest change in world agricultural trade in recent years—the increased capacity for other countries to respond to what we do.

There was a belief for years that other exporting countries had limited potential and that importer self-sufficiency campaigns were largely slogans. We tended to see the United States as the primary determinant of the course of world agriculture.

There has been a rude awakening. Production in exporting countries has jumped sharply in response to protective world price floors given to them by the United States. Importing countries have been slower to permit import consumption to grow.

Virtually everywhere in the world, farmers have more production potential and they are ready to use it when given the incentive. New developments in production technology, aided by genetic engineering, mean that productive capacity will continue to grow so long as production incentives exist.

But the truth is that slowdowns in the world economy, production, technology, genetic engineering, and many other factors are not the main cause of our farm export problems. The basic causes are our own mistakes.

In setting and then clinging to rigid price floors, in imposing embargoes, and encouraging production cutbacks, we misjudged the rest of the world's greatly increased ability to respond to what we do, and it is costing us in export markets and farm income.

Looking to the future, we do not know how long it will take for world consumption of agricultural products to trend more rapidly upward. It will depend in good part on the level of world economic growth and, realistically, we need to conclude that global growth will not be as rapid as we would like in the foreseeable future.

So, we can only assume that this highly competitive situation will continue. That means that in order to participate fully in export trade we have got to quit offering incentives to our competitors. Until we base our farm support programs on market realities, we will continue to give other exporters the incentives to perpetuate a trade situation that is leaving U.S. agriculture behind.

U.S. farm programs are a primary factor bearing on the competitiveness of U.S. agriculture in world trade, and the strong dollar has its impact, but there are two more aspects of trade that also can have important effects.

They are, first, the policies of other countries in their conduct of trade, and second, the problems of market access.

I have mentioned the export subsidy policies of the European Community, which have distorted trade and propelled the Community to at or near the front rank in the export of several major commodities.

There are many other practices that disrupt trade and cost the United States in lost exports. Brazil's differential export tax, for example, has contributed to the decline in exports of soybean meal from the United States. Five years ago, this country accounted for almost half the world's trade in soybean meal. This year it will be one-fourth.

Marketing monopolies, such as the Canadian Wheat Board, can practice price policies unrelated to the market. Government credit

can be the deciding influence on buyers—the list of trade-distorting policies is long.

The problems of market access are many and familiar—the European Community's variable import levies and Japan's import quotas are only a few of the multitude of border controls that impair the international movement of agricultural goods.

This administration has moved aggressively to eliminate—or at least to alleviate—the worst of these restrictions, and with some success.

Japan today is importing U.S. beef and citrus in quantities about double what they were prior to the completion of negotiations last year.

We have, with more than 2 years of hard work in the GATT Committee on Trade in Agriculture, set the participating nations on a course to bring the use of export subsidies in agriculture under control.

We have thus far staved off EC efforts to restrict entry of nongrain feed ingredients and to tax fats and oils, and we have improved access for a wide range of lesser commodities in markets from Europe to the Far East.

As efficient, abundant producers, U.S. farmers can only benefit from a trading environment geared as closely as possible to market forces, and we will continue to apply pressure to liberalize trade. But until our domestic programs will permit export prices for our basic commodities to align with foreign demand and be competitive with foreign competition, trade negotiations, acreage diversions, or other schemes will be largely irrelevant.

If we have learned anything from the experience of the past decade, it is that agriculture is without question a global activity and agricultural policy must be flexible enough to permit agriculture to respond to global change.

And we have learned in the more recent past that our current programs inhibit our response. They have limited U.S. agriculture's capabilities to adjust for falling market prices, a fluctuating dollar, or slumps in world demand which can leave U.S. prices stuck above world market levels.

Before closing, Mr. Chairman, I would like to touch briefly on one more factor that I consider of great importance to the future of agricultural trade. I am referring to the need to help developing countries move into the mainstream of the world economy.

The greatest buying potential lies in these countries, and the pace of their economic growth will largely determine the pace of trade growth for a competitive U.S. agriculture.

Food aid is a necessary, but temporary approach for dealing with crisis situations—such as those in Africa today—and to assist those countries that have a long way to go to crawl out of the economic abyss.

The long-term approach must be to aid in the development of healthy, growing economies around the world. It is up to us, and to the rest of the industrial world, to help the underdeveloped countries utilize their comparative advantage and expand their exports by opening our borders to their production. The more we import from them, the more they will be able to buy from us.

In conclusion, I believe that neither production restraint nor protectionism is the way to get better prices and incomes for American agriculture. I believe the world can use all that our farms can produce, because our production efficiency, technology, and marketing capability can match that of any other country.

But we must get back in tune with the market. The sooner we do it, the less the cost—not only to the budget, but to our farmers and to the many related industries that depend on agriculture.

We are grateful for the continued support of this subcommittee—and for the opportunity to meet with you today.

That concludes my statement. Mr. Chairman. I will be glad to respond to questions.

The CHAIRMAN. As you mentioned in your testimony, I believe the soybean loan rate has been market oriented and yet we are losing a good deal of business there. You mentioned a figure. The figure is shocking, as a matter of fact, for soybeans, even more than it is in some other commodities. Yet there the loan rate has been market oriented. While we do believe that suddenly the Europeans, some of our competitors, are going to be more agreeable in adjusting their own trade policies, that is going to make it more expensive. Is that going to make it more negotiable?

Secretary AMSTUTZ. I think so. These are highly complicated subjects, but in the final analysis, in most countries, the questions get back to more——

Senator BOSCHWITZ. We have been waiting for the Europeans to run out of money for years. [Laughter.]

Secretary AMSTUTZ. We have had subsidies in our farm programs to make sure they will not run out of money, Mr. Chairman.

Senator BOSCHWITZ. You staved off ECF's and also the oils, but to stave off something that they agreed to a long time ago is a questionable accomplishment in my judgment. If we lower the boom on the whole business of loans it is going to be too expensive. What is another dollar a bushel for them?

Secretary AMSTUTZ. I do not think you can answer it in terms of $1 a bushel. Fortunately for us, perhaps unfortunately for the European Community, they are not allowed to live in a deficit. It must raise revenues to the extent—to equal its expenditure. In recent years it has been a well publicized fact that the Community has had budgetary problems and financial crises.

Senator BOSCHWITZ. Hasn't restrained them.

Secretary AMSTUTZ. Well, as I say, we have helped them a great deal, Mr. Chairman. Indirectly through our own programs.

Senator BOSCHWITZ. My assistant here was just on a farm in England that had yielded 195 bushels per acre, talking about corn, talking about wheat, and it would seem to me that more and more pressure is put on them financially by their own producers, and it would be by our raising the loan rate that we may be setting some type—we will talk about other producers and other regions in a moment. We are talking about the Europeans. We may be setting some kind of an umbrella, setting them $2 because of our loan rate being as it is, and setting a base for the world market. I do not disagree with that entirely, but far and away their greatest costs come from their own internal production, and I do not see them saying to their producers that they should produce less; that the

exports restitutions certainly are very large costs. Yet their own overproduction is certainly a large force of expenses to their loan rate. On what commodity? Corn, soybeans?

Secretary AMSTUTZ. And wheat. We have wheat as a principal feed grain in the world. Wheat is the first one, and now, again, it is becoming a very important competitor in corn.

Senator BOSCHWITZ. I must tell you, Mr. Secretary, that while I believe that we have perhaps held off imports on monoglutens for a while, and will make another attempt at that, we have been appreciative of the efforts and the progress made, and that is a very good thing, and also with the Japanese with respect to meat. I am not terribly impressed, and I do not think my colleagues in the Senate are either, about the progress, if any, with the Europeans. I think that they are making markets pretty much at will and expanding their sphere, and producing and having to expand that sphere of exports. They seem to have deeper pockets than we, and they seem to be better organized than we are.

I do not know exactly how to slow them down, but I think we have to come to that conclusion, and the loan rate on wheat alone is not going to do it.

Secretary AMSTUTZ. Well, Mr. Chairman, I have to say that I would think in this country that Members of Congress would have great difficulty in voting for a bill to increase taxes, and if that is what you are suggesting will be necessary among parliamentarians in the European Community when and if this country adopts a more market-oriented, competitive farm program, they will be faced with the need to raise tax revenues to finance operations at current levels. None of us for a minute believe that the common agricultural policies are going to disappear, and in case any harbor those hopes I urge them to forget about it.

The Common Agricultural Policy is going to stay. It is the thread in the minds of Europeans that holds the Community together, and it is essential in their minds, and I think in ours, too, that the Community stay together, that a united Europe is a continued reality. What we are talking about is more microspecifics as to how the common agricultural policy functions, and specifically we are talking about the level of incentives that are provided for production. I hesitate to say what I am about to say, because some people have a tendency to interpret it as a lack of sensitivity, but if we are addressing the problems in agriculture as this sort of problem we would say the problem in agriculture is too much capacity. We have too much capacity at work relative to the demand. Why do we have too much capacity? What brings capacity into play? It has to be incentives, and it has to be production incentives that are being provided in greater abundance than indicated by market realities. There is a cost to providing incentives that are not justified by market realities. The greatest deterrent in my judgment to a continuation of those kinds of incentives are indeed financial deterrents. The fact is that we really have not provided those to foreign countries.

I hasten to add that I do not pretend that the current dollar strength is not effective. Of course it is. It would be stupid not to say so, but also it would be wrong not to see and point out the affect of our own farm programs.

Senator BOSCHWITZ. Well, I know in your testimony you have said that the strong dollar was a significant factor in a long-term decision by competing exporters, but perhaps they have the same feeling of euphoria that we had in the 1970's. At that time we mistakenly construed many signals as long term which led us to expand the agriculture infrastructure that now is not being properly or totally utilized, causing others up and down the infrastructure to suffer. You talk about the realities of incentives through high loan rates, and you say we should base our loan rates on market realities. Some of the realities I see include the differentiation export tax you talk about, export/import restitution, and the various incentives that the Canadians give—whether it is through rail rates or otherwise. It is not clear to me that lowering the loan rates will do the trick. What are you going to do in that case? We are both politicians and realists, and we know the land is not going to go away. There is no question that agriculture is in no more an extreme condition than it has been for some time.

You say you do not want to be misinterpreted. I said perhaps the farmers have been crying wolf so long—as long as I have known them—that it is certainly not easy to know when they are in extremes and when they are not. My colleagues who spend more time at it than I have more difficulty in making that determination than I do. But one of the market realities is that there are heavy subsidies out there in the market. Perhaps we have to meet them.

Secretary AMSTUTZ. Trade practices by other countries, I referred to in my testimony, namely, subsidies of various forms, are indeed one of the problems. I think our policy is quite clear on this, that we agree with you that if we are unable to make continued progress in resolving these issues, that we have to, on occasion, employ these methods ourselves in a greater form—as you know, Mr. Chairman, we subsidize our exports, too.

What you are suggesting is that perhaps to a greater extent——

Senator BOSCHWITZ. We subsidize our exports in the form of credit?

Secretary AMSTUTZ [continuing]. In part, and in part as most would agree as target prices; deficiency payments are a form of indirect export subsidy.

Senator BOSCHWITZ. In the sense that it creates a need. In the sense that it creates a greater production, and we deal with surpluses——

Secretary AMSTUTZ. And supplement income that allows for sale at a lower price.

Senator BOSCHWITZ [continuing]. I do not disagree with that, but how long do you have to let all this go on in the world market before we deal with the foreign market realities that you speak of?

Secretary AMSTUTZ. I do not think in the long run, Mr. Chairman, that the answer is to engage in some kind of trade war. I think in the long run the reason for the resolution of these matters is the fact that there is no winner in matching subsidy for subsidy in a trade war.

Senator BOSCHWITZ. Well, it is going to make it expensive for them. You say that is going to get their attention, because we did that for 15 years, from the late 1950's to the early 1970's, and we seemed to fare quite well. As you know, during that period of the

last few years, as you have pointed out, it has dropped a few percent a year. It is a very frustrating thing.

Secretary AMSTUTZ. I understand, and I hasten to say, as I was trying to say, in no way, shape or form do we say other than it is first our policy to induce in all countries, including our own, to adopt trade policies that eliminate subsidies, but we reserve our right to use what properties we have to engage in that process, and the level or extent that we will do it, has a close bearing or relationship with progress or the lack of progress in multilateral negotiations in the GATT Committee on Trade and Agriculture that is just beginning to address really only three subjects:

First, market access. Second, trade policies, mainly subsidies. Third, trade barriers, and I indicated during my testimony that all we have done in this process so far is to begin it, and that is certainly no accomplishment, but at least we have begun it and we are deadly serious, and committed to progress. If we are unable to progress, then I would perhaps be even more for the right than I have been in what our policy should be.

Senator BOSCHWITZ. About the time that we are able to progress there is a change in some type of personnel, so the new folks have to see if they can progress, and do something that their predecessors did not in telling our trade partners that they should change their errant ways. I have seen very little indication that they will change. I don't deny for a moment that because of the strength of the dollar, and because we may hold up the world price that is seen through that dollar strength, they can see that they have an advantage. And I am not sure that we agree with the idea that they are not making some long-term decisions on the basis of a strong dollar, because—they think that this is going to go on forever.

So I am concerned. I think that the question has expressed itself and the Congress has expressed its frustration about these matters. Somehow, in the progress of this 1985 farm bill we have to put together our thoughts and come up with a policy. Europeans are not going to decide that they have spent too much money. They say we have to do this with the 8.6 percent system—the percentage of people who live in the farm community—and that is the only thing that holds the economic community together. And as long as they hold up those very high prices, we are going to see higher and higher production and continued exacerbation of the problem. And if you say lower the loan rate, make it too expensive for them, we are not convinced that that would come about, and the Canadians would not seek some other type of solution and come in a few cents under it.

Secretary AMSTUTZ. Mr. Chairman, I would like to make two unrelated and related remarks, that by way of saying I understand what you have just said, and I am pleased to hear some of it.

Now, let me make the two unrelated statements. It is my firm opinion that the major factor that other countries are looking at when they make their farm policy plans is whether or not they believe that the Congress of the United States will pass a market-oriented farm bill. They hope, and the Australians, the Canadians, the Argentinians, the European Community, they hope that the Congress of the United States will pass a farm bill similar to what we have now, and they think you will. I hope they are wrong.

Senator BOSCHWITZ. I think they are.

Secretary AMSTUTZ. Second, 2 weeks ago I was in Europe, in Berlin, representing the Secretary and had an opportunity to meet with, I believe, six or so Ministers of Agriculture, principally from European Community countries, and I met with the new Commissioner of Agriculture, Commissioner Andriessen, from the European Community. I discussed with them the general tenets of the farm bill that we will be sending up here and, of course, discussed this market oriented approach that we had heard so much about in the past. I then said to them, we are going to have a trade title in that farm bill for the first time.

Senator BOSCHWITZ. We had one last time, but you did not propose it. [Laughter.]

Secretary AMSTUTZ. And the level of toughness in the language of that trade title as it emerges from the Congress, I suggest, will directly relate to their willingness to negotiate in Geneva. So I am glad you are suspicious of how things will proceed. I think that is enormously helpful to the Nation as we try to negotiate this thing. I think we have to try it.

Senator BOSCHWITZ. Well, I think, that we will certainly try, and we can continue to apply pressure to liberalize trade, as you say, and I trust you understand that I am not very inclined to believe that you have made an all out push. Our personnel seems to turn over at about the time that we are beginning some progress. I was interested in your comments earlier about the oil bust. The oil bust was bad for the agricultural trade and the boom was good. Trade was booming, when the oil was booming but when the price was going up in the late seventies, the farmers were down here in their tractors complaining about the cost of energy.

Secretary AMSTUTZ. I think so, Mr. Chairman. The farmers that I have visited with, and I am not going to pretend—as they think back to those years, comparing prices they were receiving, demand for their production was real in the marketplace, that as they think of this in retrospect, that sure softened their unhappiness over the sharply higher cost for fuel that they were experiencing at that time, and now none of us, Mr. Chairman, wants a highly erratic kind of price scenario. And my sense is that for American agriculture, at that time, part of the complaint was that there was too much change too soon. It was a highly erratic period that certainly caused hardship. But the fact is, as we look back and analyze that period, the OPEC oil boom was very good for demand for farm products.

Senator BOSCHWITZ. Who was buying?

Secretary AMSTUTZ. The OPEC countries themselves, and they were making it possible for other Third World countries to buy. Those petrodollars got sifted into the system, and per capita consumption levels in OPEC countries and countries friendly with OPEC countries rose rather dramatically in that period.

Also in that period, some countries, I was about to mention, and I don't think I should, some countries even decided that a new day had arrived and all they had to do was pump the oil out of the ground; they did not have to worry about producing other things from the land, they curtailed their agricultural production and imported more, because they had lots of money to spend.

Well, of course, that has come full circle, too.

Senator BOSCHWITZ. Sure. People make decisions on short-term economic phenomena like the expensive dollar. Here are my final questions and then we will go on to a number of other witnesses that we have. What happens to farmers about whom we are concerned if we suddenly lower the boom on Europeans, Canadians, others, and drop the loan rates? And why are these farmers sitting out there now with lower loan rates wanting to keep the target prices up, and what is going to happen to them? And considering the soybean example, why should they reasonably hope for a better future?

Secretary AMSTUTZ. That is the question. Let me answer it in the long term.

Senator BOSCHWITZ. I might say that we have in my family a rather long lifespan. I figure on about six or more terms.

Secretary AMSTUTZ. I really think the issue that we are addressing with legislation this year relates to this capacity question I brought up before. In broad terms, we in this country, because of the realities of productivity in agriculture need employ only 50 percent of our agricultural resources to feed and clothe ourselves. The question is, How do we employ that remaining 50 percent of our agricultural resources, and let me add, I do not know of a single economist who tells us that you can have a healthy industry if only 50 percent of the resources are being employed. It seems to me that if all of us who care about agriculture in this country want to adopt policies that will allow utilization of that remaining 50 percent of our resources at the highest possible level, the highest possible level means that we put ourselves in the position of the Government policy of allowing our farmers to compete, allowing them to bring the magic of what they can do for productive increases and allowing them to take the risks they have taken over the years in bringing new crops forward, to utilize again as high a percent of total resources as possible.

If we do not adopt market oriented policies and, instead adopt policies of restricting the usage of our resources, when we ignore the reality of productivity equations and start adopting market quotas; if we go down that path we are charting a course for no growth in the American agriculture, a static kind of dormant industry. I think it would be a disservice to American farmers to go in that direction. I would like to see land values get up to what they were 4 or 5 years ago.

Senator BOSCHWITZ. I think that is realistic.

Secretary AMSTUTZ. Over time, with the kind of farm policy we are advocating, there is no quick panacea that I am aware of, but I think they will benefit over time from the kind of policy we are advocating. The kind of policy that does not allow optimum utilization of our resources that we do not need to feed and clothe ourselves, if we do not have policies that allow that kind of utilization, then I am very pessimistic about whether their resource values will ever increase. I am convinced that what we are advocating is best for American farmers and the entire agricultural industry.

Now, I know that times are very tough right now for many people. Many farmers, and many businesses. I just said a minute ago that there is no panacea. There is no quick magic wand that I

know of that can be waved to suddenly correct everyone's problem, but we are surely trying to be sensitive to this in the farm bill that will be sent up here. We still call for a continuation of deficiency payments to provide for this kind of help, and the quicker we take steps to correct the long-term situation, logic says the quicker the short-term situation improves.

Mr. Chairman, you know, until I came to Government I made my living by trading, and when I was young one of the first lessons I learned is that your first loss is your best loss, when you have done something that really proves to be wrong, the worst thing to do is to sit around and hope for things to get better. The best thing to do is to bite the bullet, make the change and go ahead.

Senator BOSCHWITZ. I find that harder to do when you are talking about farming. So I am concerned with what happens to the agricultural trade. They cannot stand a couple of years of transition. If we really lower the boom on these rates, and use the proposal you are going to send up here, what happens? I think that is an important consideration in the whole equation.

Secretary AMSTUTZ. Sure it is.

Senator BOSCHWITZ. Well, thank you, Mr. Amstutz. I hope you will have an opportunity to stay. We have Raymond Daniel coming, he is a very peppery guy. He is very forcefully opinionated on some of the things we have been talking about. You are welcome to stay. We thank you for coming.

Secretary AMSTUTZ. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Next we have Robbin Johnson, vice president of public affairs of Cargill, Inc., Minneapolis, MN.

While we have a very positive trade balance with respect to agriculture, many things are imported. Recent contracts that Cargill has entered into and made headlines. With results of dollar fluctuations. When I was in business I bought a lot of Canadian lumber and plywood, prices were lower, and it was quite customary in the trade. The dollar went up and down and very much influenced that trade as it does today.

But we welcome you, and I see that you have rather long testimony, and if you would move through it we would appreciate it.

STATEMENT OF ROBBIN JOHNSON, VICE PRESIDENT, PUBLIC AFFAIRS, CARGILL, INC., MINNEAPOLIS, MN

Mr. JOHNSON. Mr. Chairman, thank you very much. I have a formal statement. It will take me about 20 minutes to get through it, and I will try and do that as expeditiously as possible.

Controversy over plans to import Argentine wheat focused needed attention on the subject of today's hearings—U.S. competitiveness in world grain markets. Those markets have changed dramatically since 1980. The accompanying "lineup" of world grain export price quotations from a month ago shows how much those markets have changed in a few short years.

There is also a hard copy attached at the end of the statement, and we have added at the bottom the loan equivalent of the comparable grain in the United States expressed as a price, and you will see that in the first column on the left here wheat will be $135. The U.S. corn loan in the second row is $120 a ton.

Senator BOSCHWITZ. You are talking about that by way of bushels.

Mr. JOHNSON. Well, it involves taking the—the point I am trying to make, if you look at the loan levels, $135 in wheat, $120 in corn, $114 in sorghum, $121 in barley, $209 in soybeans, you see how our base support loan is impairing our competitiveness in the world markets. Since there are a number of competing commodities, they are offered at prices substantially below those loan levels.

Senator BOSCHWITZ. Go through it again.

Mr. JOHNSON. Wheat, the wheat loan level equivalent is $135 a ton. Corn, $120 a ton. Sorghum, $114 a ton. Barley, $121 a ton. And soybeans, $209 a ton.

I also apologize for the term of art in the trade on that slide. Plate is Argentina. It refers to the Plate River down there.

U.S. perceptions and policy have not kept up with those changes. As a result, world markets are depressed, our competitors are expanding while the United States retrenches; and farm incomes, grain export volume and U.S. market share have all fallen sharply.

U.S. policy needs to adjust to these new realities. The challenge is to develop a policy designed to restore growth to demand while cushioning the effects on farm incomes as the recovery develops.

What is happening:

There have been three major changes that have occurred in world grain markets since 1980. First, total world grain trade—which doubled to 200 million tons during the 1970's—has stagnated at 200 to 210 million tons since then, and self-sufficiency has risen in many importing countries.

Second, the U.S. share of world trade has turned down. After rising from 40 percent to 60 percent of world trade during the 1970's U.S. exports have fallen below 50 percent today. The cumulative loss in U.S. grain exports over the past 5 years totals 75 to 100 million tons, roughly equivalent to losing 1 full year's exports in just 5 years.

Third, foreign competitors have been expanding their production and exports in the face of stagnant total trade demand. They continue to operate at or near full capacity and to add to their capacity while the U.S. operates well below its export capacity.

What are the causes of this reversal: The causes of these three shifts in trend are rooted in both economic factors and policy decisions. Let us look briefly at each.

Stagnating trade and rising self-sufficiency. World grain trade serves a residual market—the demand unmet by local production. This residual market has been compressed since 1980 by three factors.

The prolonged recession into which the world fell in 1980 has slowed the rate of growth in total world grain use.

As can be seen in the accompanying chart, world grain consumption has been below trend since 1980.

World grain trade also has been hampered by a credit crunch. Since 1980, commercial lending to many developing and centrally planned economies—which expanded too rapidly in the 1970's—has undergone a necessary but painful constriction.

And, grain imports have been discouraged by rising grain prices expressed in local currencies. The accompanying chart shows the

history of the U.S. corn price support level in real terms that is adjusted for inflation, and expressed in the relative value of the dollar versus the deutsche mark.

It shows that the United States boosted its real level of corn price supports in the mid-1970's. This did not initially discourage demand expansion because the dollar continued to decline in value through the end of that decade, cushioning the effects on foreign purchasing power. Since 1980, however, the dollar's strength has transmitted rising import costs to foreign customers. The pattern was similar for wheat.

As a result, since 1980 grain importers have seen their purchasing power for grain imports eroded by weak economies, a credit crunch and rising import costs in local currencies. This has cut off import growth and stimulated increased self-sufficiency.

Declining U.S. exports and market share: The United States has absorbed the full brunt of this falling purchasing power. The stronger dollar and rising real U.S. price support levels have stimulated non-U.S. grain production through a combination of expanded acreage and increased productivity. This has altered the mix of world grain output. Since 1980, world wheat output has risen 17 percent while world coarse grain output has increased only 7 percent. As a result, world grain consumption and trade patterns have shifted in ways that work against U.S. comparative advantage.

This is a complicated chart, so let me take a moment to explain the key. At the top, in the brighter Kelly green line is U.S. grain exports and just below it, non-U.S. grain exports. On the lower half, world coarse grain trade is in orange and world wheat trade is in red.

The accompanying chart shows that world coarse grain trade grew faster than world wheat trade during the 1970's. Since 1980, world coarse grain trade has declined sharply and is now well below world wheat trade. U.S. competitive performance parallels this pattern. U.S. market share rose when world coarse grain exports were rising relative to wheat exports. It fell when total coarse grain trade fell relative to total wheat trade.

In other words, an effective rise in world minimum prices since 1980—assured by U.S. price supports converted to local currency values—has stimulated a large expansion in wheat production for feed uses. Since most countries can produce wheat while fewer have the natural resource base to produce corn, wheat usage rises at the expense of corn. This opens the door for competing wheat exporters to expand at the expense of U.S. wheat and feed grain exports. Thus, the commodity mix in world grain production and use has shifted against U.S. comparative advantage and in favor of importers and competing exporters.

Competitive expansion: The third major development since 1980 has been a decline in U.S. competitiveness and an expansion of foreign competition. The stronger dollar has strengthened the relative profitability of foreign production versus U.S. production. Some erosion in the U.S. market share would have occurred as a result. But the severity of the loss in U.S. competitiveness was magnified by inappropriate U.S. policy responses.

U.S. price supports currently are not as flexible as they need to be. Using the Secretary's discretionary authority to lower loan

levels in the face of competitive pressures has been blocked by program actions that kept U.S. prices artificially high and by political resistance. As a result, U.S. policy did not respond promptly to changing market conditions. The incentives stimulating foreign exports accumulated and gathered steam.

As the competitive problems grew, the initial U.S. response was to isolate huge quantities of grain in a reserve that was not available to the market except at even higher release prices. When this failed to correct the situation, the United States moved heavily into production controls. Instead of buying time for a correction in market fundamentals, these actions created an umbrella under which competitors had the incentive and the means to gear up their production and marketing systems.

In other words, economic forces and U.S. policy responses since 1980 have: Eroded purchasing power and discouraged expansion in demand; contributed to a shift in commodity mix that fits the resource bases of our competitors better than ourselves; and created a safe price haven for competitors to expand their production and their handling systems at U.S. expense.

What about the future: In our judgment, the future for U.S. grain production and exports still lies largely in our hands, but time is running out. That is why decisions taken this year on U.S. farm policy assume such importance.

Events of the past decade have created a truly dynamic world grain economy. World trade levels and market shares have become much more sensitive to a broad array of economic and policy factors. The accompanying table shows the learning curve that Cargill has gone through in trying to understand that market and project its future direction.

As can be seen, the 1985–86 projections we were making in the early 1980's failed to correct for the artificial stimulus that an inflationary psychology and easy credit had given to exports in the late 1970's. But we detected those problems earlier than most. For example, our 1985–86 export projection made in 1982 was 1 to 2 billion bushels lower than forecasts then being made by USDA and most other agricultural groups.

More importantly, this experience focused our attention on the mechanics of the dynamic interplay between policy decisions, economic changes and their fallout on trade. Without careful attention to those interactions, economic forecasts will overstate likely 1990 U.S. grain exports under a continuation of current U.S. policies and understate the likely gains by then from a shift in U.S. policies toward market-based programs.

Our analyses show that a continuation of current U.S. farm policy will perpetuate the stagnation into which the U.S. grain economy has fallen. Without a shift in U.S. policies, world trade will grow slowly over the next 5 years, but U.S. grain exports by 1990 will remain essentially at today's level of 4.4 billion bushels. This would be well below the peak of 5.1 billion bushels in 1980–81 and would reflect continued erosion in U.S. market share.

If the United States moves to a demand-oriented, market-stimulating policy, however, the future can be much brighter. Under such a shift in policy, U.S. grain exports should reach 5.5 to 5.9 billion bushels annually by 1990.

Senator BOSCHWITZ. What kind of projections did you make on the value of the dollar?

Mr. JOHNSON. In making these two projections?

Senator BOSCHWITZ. Yes.

Mr. JOHNSON. The particular ones that were on the screen there, we assumed the current value of the dollar against major currencies in both cases. We also did some projections——

Senator BOSCHWITZ. You assumed——

Mr. JOHNSON. In other words, 3.1 deutsche marks to the dollar. In other words, we tried to hold——

Senator BOSCHWITZ. You didn't assume the dollar would change?

Mr. JOHNSON. We looked at a higher dollar and a lower dollar.

Senator BOSCHWITZ. Do you have those figures, too?

Mr. JOHNSON. No. They are not with me. As one might expect, the lower dollar helps some but it does not correct the situation nor does it change the relationship in what happens on the continuation of policies and changing our policies.

These different outcomes arise from a mutually reinforcing combination of events that will shape the U.S. response to future opportunities. World grain demand will recover as economic growth worldwide strengthens and credit conditions ease. At some point in the next 5 years, world grain use should bounce back above trend.

The U.S. policies in place when that occurs will directly affect: The rate of expansion in total world demand, the mix of that demand for wheat and coarse grains; the share of that increased demand to be met by imports rather than domestic output; and the share of that expanding trade pie that will be captured by the United States. These effects can be cumulative. Under the right set of policy conditions, the United States could rival its performance in the 1970's, when it captured three-fourths of the growth of world trade.

It is important, however, to make those policy adjustments now. Currently, our competitors are producing and exporting at or near the physical limits of their farm and handling systems. U.S. exports and market share, in fact, would have declined further but for these capacity constraints. As long as U.S. policy accommodates their expansion, they will continue to add to acreage, increase yields and build elevator and transportation systems.

By contrast, the United States is producing well below its productive capacity. The grain export handling system is currently operating at about 50 percent of its capacity. That means we can respond quicker, more inexpensively and preemptively to incremental grain import demand.

That is why it is important to move now to put in place policies that will make the United States the preferred supplier in world grain markets. At the heart of a preferred supplier policy must be; strong guarantees against self-imposed export restraints, future price support loan levels flexibly tied to world market prices; a more limited reserves policy; and an end to supply management programs.

Probably the major impediment to this policy shift is the financial hardships some farmers have been thrust into by past economic events and policy decisions. For that reason alone, farmers should not bear the full costs of needed policy changes. But another

reason for cushioning the costs of this adjustment is to ensure that farmers' current financial problems do not limit their ability to respond as demand recovers as a result of these changes. Otherwise, much of the benefit of reforming policy would be lost.

So, it is important to a market-oriented strategy that farm incomes be adequately protected as we make these policy corrections. A fair sharing of these adjustment costs will prove to be a sound investment to capture the returns that will come with a market-led recovery for the farm economy.

Two other aspects of the future export puzzle deserve comment. We know that U.S. interest rates are at historically high real levels and that the dollar has been very strong in recent years. These events have coincided with relatively tight U.S. monetary policy and high Federal budget deficits. All sectors of the U.S. economy will gain from a more balanced mix of monetary and fiscal policies here and abroad, and agriculture should support current initiatives to achieve that goal.

It is less clear, however, how those changes will affect U.S. interest rates and the value of the dollar. Whatever their contribution to restoring U.S. agricultural competitiveness, the gains to the farm economy will be greater if U.S. commodity policies are made more market oriented. It would be a serious mistake to assume that changes in macroeconomic policy alone will restore growth and profitability to the U.S. farm economy.

The other key element in any strategy to restore farm prosperity involves U.S. trade policy. U.S. farmers face intensifying foreign competition of varying shades of unfairness. There are instances—especially with the European Community—where exports are subsidized directly. There are other cases where unfair competition is harder to detect, measure and combat because it arises from undervalued currencies, access to cheap production or investment credits, transportation subsidies or higher prices for protected domestic uses.

In general, the United States had not been successful in past efforts to discipline unfair competition unilaterally nor to curb it through negotiations. That failure has been frustrating and costly.

The agricultural community, however, must approach this issue with all of its dimensions in mind. Continued support for a liberalizing rather than a protectionist overall U.S. trade policy remains in agriculture's overriding interest. It is necessary to expand the purchasing power of developing-country customers and to avoid a crossfire of retaliation.

Moreover, the prospects for meaningful success in reducing agriculture protectionism is linked to a recognition that protectionism is rooted in domestic policies and only manifests itself through trade barriers. Once grain is produced, it will find a home—either displacing U.S. grain exports in that domestic market or by export to a Third World country.

So, while it can be useful to demonstrate that the United States will in the future be more aggressive in combating overt export subsidies, real progress will only come from a policy that permanently raises the costs of uneconomic foreign production. That is why a domestic farm policy that clearly demonstrates the U.S. resolve to become persistently competitive and to produce for antici-

pated demand must be the foundation of future U.S. agricultural trade policy. It has a better chance of leading others to make adjustments in their own interests that we lack the means to force them to take merely for our benefit.

In summary, the world grain economy offers U.S. agriculture substantial opportunities for future growth, if we position ourselves to serve it. In the process of restoring our competitiveness in world grain markets, we will find that we can foster an expansion in world food use, world grain trade and U.S. grain exports that can make agriculture—both farmer and agribusiness—a profitable industry again.

Thank you.

Senator BOSCHWITZ. Well, I thank you, Robbin. I agree with you on some of your conclusions.

With regard to your forecasts about U.S. grain exports by 1990, I have given up listening to forecasts, whether it is about the subject or anything else. I listened to the forecast about the budget in 1981. It said we would have a surplus of $18 billion in 1983, and it was something like your forecast. We had a deficit of $195 billion. So I am in a way done with looking at forecasts that turn out to be wrong, in trying to adjust actions. I just want to do the sensible thing. Hold down the overhead of the Government and do whatever is necessary in agriculture.

You say the No. 1 priority is the economic realities, and how we deal with them. You say currently our competitors are subsidizing and you talk about the European Community specifically. I asked the same question I asked of Mr. Amstutz. Everybody is always telling me that we should lower the boom and make them get tired of spending all that money. I have been hearing that for years. How tired do they have to get? And can we lower the boom on them enough by simply imposing lower loan rates, which is what you are suggesting, rather than taking other actions in addition? So it is a twofold question. Here are the final questions I have before turning to the Senator from Illinois. Will we really impress our trading opposition? And I think it is extraordinarily important, that before they really build their infrastructure beyond their current capacity will we really make an impact on them? Will they simply subsidize more? Will they say that those people up in Congress have said all this before, but is Congress spending the money? Will they somehow succumb to political pressures? Are we going to truly impact them by lowering the loan, and what can we do for the American farmer so we don't in the process destroy the infrastructure that we have built up?

Mr. JOHNSON. That is a long and complicated question. Let me try and take it in several parts.

First of all, I think we have to realize, as one of those slides I put up showed, what has been happening over the past 4½ years. It is a process through our increasing loans and the strong dollar, we have raised grain prices. Watching that, our competitors factor into their planning and investment decisions assumptions about an ever rosier future. So, the first thing that one must do is to convey a sense that the United States is no longer going to underwrite that kind of a rosy future.

Second, let us talk a little bit about the European Community. In spite of the fact that our rising dollar has been cushioning the impact on their budget, they have had to, in the last year, increase the percentage of value-added tax revenue going to support the Community budget, and they did that through a very painful process. This coming year, in the grain price setting exercise that they do annually, they are talking about reducing price supports for the first time in the Community.

So there are some things——

Senator DIXON. Did you say that the European Common Market?

Mr. JOHNSON. That is correct. The European Community is beginning a grain price review process——

Senator DIXON. They have not lowered anything yet.

Senator BOSCHWITZ. It seems to me that I have heard that before, too.

Senator DIXON. Every year.

Mr. JOHNSON. Last year there was some dancing around the question. Last year the Commission said that they had in fact lowered grain price support levels, but after you finished adjusting for the national currency adjustments in the major grain producing areas, in fact, the support went up. This year we are in a slightly tighter turning of the screw in the Community's grain price exercise. And again, this is in an environment where pressure has not been very great for them as a result of U.S. economic or farm policy to do that.

Let me make a couple of other observations before trying to draw a conclusion about this.

In recent conversations, private sector conversations with European farmers, we are seeing for the first time in my experience leaders in European farm organizations beginning to talk about the lack of a future in keeping high price supports and the need to shift to direct income support. For those of us who have participated in U.S.-EC farm policy discussions over the years, that is a remarkable change in attitude.

Finally, since the policy was put in place in 1962, people have been leaving farms in the European Community, and that has, over time, been eroding the political base of the farm community in Western Europe. Today it is true that there are more workers unemployed in the European Community than there are farmers in the European Community. That factor, again, is going to begin to exert political influence on this whole question of how you set future agricultural policy in the European Community.

I cannot sit here and assure you that, if we make it a good deal more expensive for the European Community to support agricultural prices, they are going to be forced to make a change in their policy. But I can say that there are a lot of factors in today's environment that lead one to the conclusion that the situation is changing, that we are not in the situation that we were in in 1973 or at the end of the 1970's, when we thought that the budget pressures might bring the Community to a better policy.

Senator DIXON. Mr. Chairman, I regret to say that like all Senators, I have some serious time constraints. I am very anxious to ask this witness a couple of questions if the Chair would indulge me.

Senator BOSCHWITZ. Sure.

Senator DIXON. Robbin, please understand this comes from sort of a sense of frustration. It is probably a thing that is hard to believe out there in the country, but the Alan Dixons and the Rudy Boschwitz of this world would like to do what is right with respect to this problem, this vast problem that we have in rural America.

We would like to respond in the correct way, legislatively, here on the Hill, to answer these problems, and if I may say something further by way of introduction, I have had so many opportunities lately to speak to farm groups, farm credit councils, the agricultural division of the various major financial institutions in the country. This Saturday I will speak to the Farmers Union in my State, and in a couple of weeks to the Farm Bureau, and I have said to them so often, I wish we could get kind of a consensus out there among all you folks in agriculture about what you think are the appropriate responses.

I see what you say here, and I appreciate it. We start with certain basic problems. There is a vast farm credit problem that exists. It is a simple fact that the farmer has to have a fair return on his investment if we expect him to grow corn, wheat and beans, and all the other products, so he can pay for the seed, the fertilizer, the equipment, and the payments on his farm, and so forth.

Now, the thing that concerns all of us, we recognize the fact that we have to expand the marketplace, we have to get in the farm market, and other things. Keeping all of those problems in mind, could you tell me, in the order of importance, what things you think we have to do simplistically to expand the farm marketplace and expand the markets for the American farmer, also keeping in mind that we have to meet the commitments that we have? You cannot say to the farmer that you can sell your corn if it is $1 or $3, but you cannot raise them for $1 or $3. When you talk about a free marketplace, when there is not one out there, you know, I wonder how do we do these things, keeping in mind the realities of the world in which we do business. There is a real world we have to do business in. We know about the EC. We know about the Japanese.

Mr. JOHNSON. You are asking the chicken or the egg question, in effect.

Senator DIXON. I am just trying to get from you folks—who know a lot more than me—some solid ideas about what you do.

Mr. JOHNSON. The whole thrust of my testimony is to say two things about that issue. First, in terms of improving, liberalizing the rules that govern foreign international trade in this market, I think that we have to recognize that the United States is going to have to lead the change in agriculture policy, rather than force others to make it first. We are closer in this country to market oriented policies than they are in our major customer countries, like Europe or Japan, and we have more developed agricultural systems than some of our competitors, like Argentina and Brazil. So I think 40 years of trying or 35 years of attempting to reform the trade rules first, and then make an adjustment toward more market oriented farm policies here have produced very little success. I think the conclusion we have to draw from that is that we must lead by example, admittedly keeping the pressure on through negotiations and probably through some deadlines and tougher terms expressed

in the export title, so-called, of the new farm bill. But essentially, we are going to have to show the way that we are going in a demonstrative fashion that leads others to believe that they are going to have to make similar changes.

Senator DIXON. If I asked you to do that, what would you do first?

Mr. JOHNSON. That fits into the second part of your question. I think the first thing we have to do is demonstrate that future U.S. commodity price support levels will not set a permanent, predictable floor under markets. We have to tie them to market prices at a percentage of those prices that is sufficiently low so it does not block our competitiveness over time.

Senator DIXON. If we are doing that today—and I apologize to you that I do not know the price of wheat a week ago—would somebody help me with what the price would be this morning? Let us say corn is $2.75 right now and beans are $6, and I am just a simple country boy, and I want you to tell me what you mean when you say that.

Mr. JOHNSON. Senator, first of all, you were not here for the beginning part of my statement.

Senator DIXON. I apologize for that.

Mr. JOHNSON. One of the things we did at the beginning, and I will share the sheet with you, we compared world price quotations. It shows the U.S. prices and U.S. loan levels. The point I was trying to make by that line up of price quotations was to demonstrate in practical terms that you can go out into those world markets and buy cargoes of grain and oilseeds from our competitors at prices below what we can deliver them at export locations, that the loan level——

Senator DIXON. I hear you. You are telling me that there are places in the world where you can buy corn and beans more cheaply than the price of corn and beans set by the law of supply and demand in this country right now.

Mr. JOHNSON. Set by the loan level.

Senator DIXON. I will not deny that. So that is what you are telling me.

Now, unless I am misinformed by everybody I talk to that I have ever met in this country, farmers are not doing any good right now at $2.75 for corn and $6 for beans, and I want you to tell me how I can cut the price of corn and beans to the farmer and keep him working on the American farm. This is the dilemma. I want you to give me the answer.

Mr. JOHNSON. I cannot give you an answer.

Senator DIXON. How can I find an answer if the experts cannot? I want to expand the foreign marketplace dramatically. I want to sell the corn, beans and wheat, and everything else all over the world, but I cannot do anything about the fact that the American farmer cannot make a living doing it that way. I cannot make a factory worker work for 75 cents an hour because he does in Taiwan. The trouble with this world is that it is real.

Mr. JOHNSON. That is the inference that you drew, that our problem is that we are no longer competitive in basic world markets. I think that would be the wrong inference to draw from the presentation I made.

Senator DIXON. I am not criticizing your presentation. It was an excellent one.

Mr. JOHNSON. If I may, what I am trying to suggest is that we have accumulated errors in U.S. farm policy, going back to the mid-1970's, and we are in a situation where we have to make a difficult, painful correction, and no one is very happy about that. It is very frustrating, and unfortunately, because those mistakes have accumulated, the cost is very large.

Senator DIXON. Let us say that Alan Dixon, who I think is a pretty reasonable person, would vote for a free market system that would drop corn to $1 and beans to $3, or something like that in the free marketplace. I do not know what would happen. Now, a lot of farms go out of business, I presume, just tens of thousands of them. I guess you get to a point where there is some kind of a way, under a free market system, and you have a few big corporate farms left that can beat that price. I do not know. Maybe that is theoretically right. That is not what you are suggesting as a solution, is it?

Mr. JOHNSON. No. What I am suggesting as a solution, first of all, we are not talking about dropping loan levels to the levels that you suggested. If one were to take, I think, a commonly expressed specific of this formula, 75 percent of a moving average of world market prices——

Senator DIXON. What is that? For corn?

Mr. JOHNSON. I believe the USDA forecast is around $2.12.

Now, we have several elements in our farm policy, and one of them that is important in dealing with the income issue is the target-price system. We think that it is important to move immediately to drop these loan levels because that is what competitors overseas, whether they are importing or exporting countries, take as their fundamental basis for making their future production and handling investments and those kinds of things. We would suggest that we move the income protection system down more slowly and to provide a period of adjustment in which admittedly the direct budgetary cost for income support programs would be higher than contemplated in the budget that has now been sent up to the Hill.

Senator DIXON. Does that mean that you are going to take up the incremental difference and let the Government pay the farmers the difference?

Mr. JOHNSON. That is to say under the current apparatus, move the target system down and to move it down more slowly, and, therefore, to accept a deficiency payment with potentially greater exposure in the early years of the transition.

Senator DIXON. I am not trying to pick on you. What I am trying to see is how we save the Minnesota and Illinois farmer while we do these things, so he is there in place when the program is finished. I do not have any trouble with any idea that is going to expand the farm marketplace. What I have trouble with is people who have been living on farms for decades, working the soil, that are small business people that love America, that deserve to exist. I want to know how I do the things to expand the foreign markets and sell farm products, and saving that man I go to church with, who is the most decent person who has ever lived and is deserving

of at least getting his money back when he goes out there and works all day and night. That is all I want to know.

Mr. JOHNSON. I realize it is a difficult challenge.

Senator DIXON. I know that. It is a difficult challenge.

Mr. JOHNSON. I do not think one does it by——

Senator DIXON. By basically price support, and I do not think you do it by indexing upward as in the past. I am the first one to admit they did not work. I am here to learn. I just want to see how we are going to do this. That is all.

Mr. JOHNSON. The best suggestion I can offer you is that we take down those parts of our farm programs that support prices artificially immediately, and take down those farm programs that provide income support on a direct basis more gradually. Exactly what that formula is and how generous it is is part of the political process.

Senator DIXON. But you are saying you need to figure out a basic safety net operation when we do this if we are going to go into some kind of a transitional thing here, in the real world where we live, we have got to have some kind of a safety net mode of operation that will keep those small farmers in place so we do not end up with a few big corporate farms in America that we depend upon. That is a reasonable premise, isn't it, from which we ought to work?

Mr. JOHNSON. That is a reasonable premise, and the only thing, the attempt to achieve that through the instrument of price will not work, and so we have to try other instruments.

Senator BOSCHWITZ. Let me interrupt for just a moment. Where in the experience of soybeans, which have been at the loan level that you have suggested for other crops, are we to gain some satisfaction that in doing this we are going to achieve the ends we want? Because soybeans have been at the formula that we have talked about, and the minimums have been above the 75-percent market——

Mr. JOHNSON. I am glad you asked that question. In Under Secretary Amstutz' testimony, the loss in market share that he referred to for soybeans was for soybean meal exports, not for soybean exports, and it reflects the incentives that Brazil and Argentina are providing to their processing industries. U.S. soybean exports grew strongly until about 1980 and then have essentially leveled off. I think the reason for that lies not in the failure of a moving market average loan formula, but rather that they are getting swamped by the fallout from these other trends that have been triggered. For example, in my testimony I talked about world wheat production increasing 17 percent versus coarse grains at 7 percent. Wheat has higher protein content. As you move wheat into feed formulations, you are kicking out part of the——

Senator BOSCHWITZ. Taking all those things into account, we are losing a share of the market.

Mr. JOHNSON. In the case of soybeans we are seeing our market share erode less, and for reasons that I think arise outside of this soybean economy. It is not a reflection of soybean policies.

Senator BOSCHWITZ. Why are Senator Dixon and I supposed to believe that the Europeans will not subsidize some form or some part of the production chain?

Senator DIXON. Which they have always done.

Senator BOSCHWITZ. Which they have always done, either at the professional level, soybeans, or somewhere else. In the event we lower our loans will their pockets get a little deeper?

Mr. JOHNSON. It is a question of judgment. I do not think it is reasonable to conclude that looking at what is going on in the European Community that the Commission and the budget authorities and the financial ministers in the European countries are not feeling the pinch.

Senator BOSCHWITZ. We know about pinches here. We are pinched from all directions all the time, and it depends too often on who pinches the hardest, and while there are fewer farmers on the farm here as well as there, I agree with the Senator. I keep telling the farm organizations that there are too many voices. They have got two farmers, and they form three organizations. [Laughter.]

Senator BOSCHWITZ. If there was only a consensus. There are over 3½ times the farmers over there than there are here, but it is difficult to read. You say the case of the soybeans experience or the climb in market share has been less than it has been in other. I will look at that very carefully, because that, to me, is some sort of a key.

Mr. JOHNSON. I did not get a chance to finish my answer.

Senator DIXON. I hope you understand the vein in which I asked those questions was to get answers. I appreciate very much your help with us.

I ask the Chair's permission——

Senator BOSCHWITZ. I will fill you in later. [Laughter.]

Mr. JOHNSON. I would add this. The EC economies have been weak, and that has slowed the rate of growth for their demand. So when a major customer turns weak economically you lose business. The Soviet Union has imported larger quantities of soybeans a few years ago than they have now. And that reversal, the reason for which we do not fully understand, has also had an effect. I think looking at the soybean context in total, their problems have arisen from the fallout from other policies and has not been by a misguided policy there, and they have held up their market share better than in other sectors.

Senator BOSCHWITZ. Robbin, we appreciate your testimony and we will talk often, in the event more things develop.

We are going to have Richard Bell of Riceland Foods and Gary Myers of the fertilizer industry.

I am sorry that we are running a little late, and I will ask you gentlemen to be as direct as you can be.

STATEMENT OF RICHARD BELL, PRESIDENT, RICELAND FOODS, INC., STUTTGART, AZ, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES, ACCOMPANIED BY GARY D. MYERS, PRESIDENT, FERTILIZER INSTITUTE

Mr. BELL. If I may, Mr. Chairman, I would merely like to submit the statement that was prepared for me by the staff of the National Council of Farmer Cooperatives, with some help from me, and I would prefer to give a summary of the statement and then make

some comments related to it as I have heard the other presentations here this morning.[1]

I would like to begin by saying that although I am the president of Riceland Foods, I in fact come before the committee this morning on behalf of the National Council of Farmer Cooperatives to present the views of the Council and its member cooperatives.

I serve as the chairman of the agriculture and trade policy committee of this group. We did have an opportunity to meet in San Antonio and have a discussion of these issues. Our committee is made up of the chief executive officers of the principal cooperatives in the United States representing almost all those who have a substantial marketplace. And I would have to say to you that the testimony that I have for you this morning and my comments are the results of the deliberations of that committee and I have to admit that I was somewhat surprised by how everyone seemed to generally agree on the issues and what needs to be done in terms of these issues.

I also would remind you, Mr. Chairman, that in my career I have served both in Government and in the business area. About half of my period has been the Government. About half of it has been in business. My last stint in Government service was back during the Nixon and Ford administrations. In my last position I was the Assistant Secretary of Agriculture and also served in the Commodity Trade Corporation and did many of the things that Mr. Amstutz dealt with today, so I feel I do come to this issue with some perspective and some background to try to address these issues that you have before you.

I want to compliment you on having the hearings. I in fact look upon them as being critically important to the deliberations leading to the farm legislation that is going to be considered in 1985. I have to admit that as I talk and listen to the representatives from the administration that I in fact have some fear that there is misanalysis and misjudgment. Some of the factors affecting the farm economy, particularly those related to international trade, and I in fact feel that if we are going to get where we need to get we in fact are going to have to have some product on the part of the committee to get them to see things as we see them and get some action on things that I think need to be done, as well as other people I represent. I feel much more strongly about the impact of the value of the dollar and what the effect it is having on American agriculture than do the officials from the administration.

I also feel very strongly about the problems we are having with unfair trade barriers from other countries. Export subsidies, as well as well as import barriers in principal markets. The emphasis from the administration seems to be centered on trying to do things to make adjustments in the price support programs. It may well be that those programs arc not perfect, and some adjustments will need to be made, but in my judgment there are other factors which in fact overshadow those, and if they are not dealt with the program changes being talked about by the administration will not have the impact that they now say. I am sympathetic with what

[1] See p. 82 for the prepared statement of Mr. Bell.

you have been saying this morning about the loan rate for soybeans and the market orientation of that program, and the problems that we are having in it as far as how that program is put together.

So with that I would like to return to the value of the dollar and its impact that it is having on American agriculture. I have a tendency to think that the dollar appreciation in the past several years has a range of 30 percent rather than the 40 percent that is being talked about by most people here today. I do not know whether people out in the other sectors of the American economy realize the problem that the appreciation of that dollar has in terms of our trying to make sales abroad. It in fact impacts us in two ways. It makes our products more expensive and the foreign currencies that have to be expended in buying our products, and it also has an effect on competition from other countries, and I think the most clear example of how it affects the competitor is in the case of wheat. If you take our loan rate of $3.35 per bushel and convert that to Canadian currency, that is equivalent to $4.40 in Canadian currency. When the Canadian farmer is planting wheat, that is what he is looking at. He is not looking at what we have here in the United States. In the $4.40 that he has, and by inputs of Canadian currency, he has a completely different perspective of what the world looks like than what our farmers do in relation to currency. I make the same reference to Thai rice. The Thai bhat has been revalued, and you have the same impact of the price supports in Thailand for Thai rice production. So in fact, there are two ways that we are being affected.

The other aspect, which I think is important, has to do with why is the dollar as strong as it is, and if I listen to people in Washington, there seems to be a tendency related mostly to the budget deficit to interest rates, and I question all of that. I think the interest rates have something to do with it, but I think more importantly, the dollar is strong today because in terms of how people view us from other countries. They see our economy as very robust. We have done a lot of things to adjust to the OPEC oil increases 2 years ago, and they think we have our house in order, and as a result of that they want to make their investment in the United States. I bring this up in trying to evaluate whether there is going to be a break in the dollar, and I do not see any prospects in the next couple of months that that is likely to happen. I think the strong dollar is going to be with us for some time.

As far as trade barriers are concerned, I see them as deeply important. As has already been talked about this morning, we had some very tough competition from the European Community. I have noticed in the last issue of the Soybean Update from the Soybean Association, they figured that the European Community is subsidizing oil seed by $700 million a year. And that goes a long way in offsetting any value that we have in those borderline tariffs, and my view is that unless something is done to counteract that in terms of trade policy that they are going to push us out of Europe on soybeans the same as they have done to us on other crops.

Mr Amstutz said this morning that he does not want a trade war. I am not in favor of a trade war either. I guess I would wel-

come a skirmish from time to time. I always tell my staff that if they make every sale on everything they are offering they are selling it too cheap, and I think the same principle applies here, if we never get into an argument about anything and never have a skirmish we are not going as far as we need to go. We do feel in our work of our committee that we have learned that other policies other than this farm policy are affecting our economy to a great degree. We do feel there are some things that the agricultural sector has not been doing as well as we should have. I feel we have to do everything we can to lower our costs. I think during the 1970's things have become easier. We backed off the research and we should have kept full steam ahead. We need to pick that pace up again. I think for those of us in the marketing area, we have to sharpen our marketing techniques.

Lastly, I would like to say, Mr. Chairman, that I think there are an array of options available to our country, both our Government and the private sector, to have attacked some of these problems that we are confronted with. I think we must find a mechanism or a way to counteract the strong value of the dollar. I think the mechanism that will need to be used will be different for different commodities. I do not think that what you can have for two grains necessarily will be the same program for cotton or what you will need for feed grains. I think this concept has been put forward by member groups. I know it was in the National Association of Wheat Growers policy position of what I call the marketing loan concept, where the loan is either repaid to the farmers at world price or the loan level, whichever is lower. I think that that is one way of beginning to get at the problem. I have to admit, though——

Senator BOSCHWITZ. I did not understand that.

Mr. BELL. This is where, at the present time under the loan system, for example, if you have a $330 loan level you must be paid $330 or forfeit the wheat, and that this concept, if the world price has declined to $310 a bushel the farmer is obligated at $310. What this does is——

Senator BOSCHWITZ. Why would that happen? You would change the loan program?

Mr. BELL. I would give the farmer the option of repaying the loan to his advantage. What it would do is make us more competitive in the world market. I think in the case of food grains, in this case I am talking about wheat and rice, as I analyze the situation, I think we have a very tough competitive situation. I do not think it is a situation that we have not been in before. If you go back and look at the 1950's and 1960's you had the same type of circumstances, and I submit that if we are going to keep our market share I think that we eventually are going to have to have some type of what I call export restitution program, which impact would be for a cash program, or some other type of program. But I do not think we could make the transition quickly enough in the type of proposals that are being talked about by the administration in order to maintain our markets, and maintain any level that is going to be satisfactory to the people involved.

With that, Mr. Chairman, I appreciate having the opportunity to be here this morning. I have enjoyed hearing what the other people

have had to say. I want to compliment you for having this hearing and I think whether or not the 1985 farm legislation is a success or not will depend on how effective we are in drafting and implementing a trade title for that bill.

Senator Boschwitz. Thank you very much.

Mr. Myers, nice to see you here. Perhaps you could summarize your testimony.

Mr. MYERS. Mr. Chairman, my name is Gary Myers and I am the president of the Fertilizer Institute.

The TFI is a voluntary, nonprofit association, whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes producers, manufacturers, traders, retailer dealers, and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the Nation's agriculture system.

I appreciate this opportunity to testify on a very important subject to our industry, the competitive position of U.S. agriculture in the international arena. Many reasons are voiced as to why the United States is not competitive—the value of the dollar, unfair trading practices, competitor export subsidies, noncompetitive domestic loan rates and target prices. Mr. Chairman, I do not know the exact cause, but I do know that American agriculture is in distress.

Something is wrong when we are using only 45 percent of our export elevator capacity.

Something is wrong when we are using only 74 percent of our fertilizer production capacity.

Something is wrong when the European Community spends $12 billion to generate only $30 million in exports.

And, something is wrong when the U.S. agriculture budget goes from $4 to $20 billion, throwing money at a problem that continues to worsen.

The Fertilizer Institute firmly believes that our Nation has the capacity to change this situation; that the farm programs of the 1980's and 1990's should and can respond to the realities of a new agricultural structure.

For the first time in its 100-year history, our association is actively engaging in farm policy formulation.

The centerpiece of our legislative goals is development of a strong export promotion and trade enhancement title in the 1985 agricultural bill. Key to the success of any long-term approach to farm policy must be a recognition that—if current farmer assistance programs are to be modified over a period of time—sufficient resources must be directed to improving U.S. farmer competitiveness on the world market. We support efforts to allow the market to dictate pricing levels, but we are equally convinced that such an approach cannot be attempted without a strong export promotion and market expansion effort.

Our organization's legislative goals recognize that world market expansion offers the best hope for a sound market-based domestic agriculture. We must redefine the Nation's agricultural policy from one of supply management to one of market promotion. Such an approach will help improve farm income and ultimately serve the

best interests of the entire agricultural sector and the Nation as a whole.

Mr. Chairman, an agricultural trade and export title has often been an afterthought by legislators and administration policymakers in past farm bill discussions. For example, the agricultural export title in the current bill is title XII. These programs are designed to encourage demand for agricultural commodities, but there never seems to be enough emphasis on spending authority for these important tools of export expansion.

If the new agriculture bill asks producers to accept a more market-oriented domestic farm policy—meaning reductions in Government support levels—then it is only fair for producers and their farm suppliers to ask the Government to assume a greater role in gaining farmer access to world markets.

Strong support in Congress is clearly needed to make expansion of agricultural export markets the No. 1 priority in the 1985 farm bill—instead of an afterthought. You and Senator Quayle have introduced an excellent bill—the Agricultural Trade Enhancement Act of 1985. It would provide much-needed additional market credit options for developing nations, and would expand markets for U.S. agricultural commodities abroad. Our members would like to see this legislation included as title I of the 1985 farm bill.

I urge your consideration on this request.

We know all too well that agricultural exports are crucial to the financial profitability of U.S. farmers and to agribusiness. I cannot overemphasize the vital role farm exports play in our Nation's economy. Without agriculture's positive trade balance, our soaring industrial trade deficit would tear more deeply into our Nation's economic fabric. Every $1 billion in agricultural trade creates an additional $1 billion in economic activity. That means nearly 35,000 jobs are created for each additional $1 billion in farm exports. Increased economic activity means increased Government revenues, reduced farm program costs, and increased farm income.

Now, how do we increase exports? The National Commission on Agricultural Trade and Export Policy—on which The Fertilizer Institute's past chairman, Lloyd L. Jaquier of W.R. Grace, serves—is attempting to answer that question. However, it seems obvious that countries seeking to feed their people must be enticed to buy from the United States through more available credit, and at credit terms which benefit both parties to the transaction.

Mr. Chairman, the continuing need for credit by our U.S. customers in the next few years calls for maximum use of existing programs. It calls for responsible administration of these programs to promote U.S. exports and develop markets.

Finally, there must be new efforts to identify trade barriers, both domestic and foreign, that negatively impact U.S. agriculture.

To summarize The Fertilizer Institute's agricultural policy, we support a more flexible, market-oriented agriculture—but only in combination with a strong, demand-oriented agricultural export market expansion program. We strongly support efforts which improve the opportunity for increased farm income, including:

Providing the tools needed to improve U.S. farmers competitiveness on the world market, and that includes overcoming all unfair trade practices.

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Enhancing the image of the United States as a reliable supplier by guaranteeing existing and future grain agreements against embargoes.

Expanding the funding for export credit guarantees for developing nations, and broadening food donation programs and famine relief.

Providing bonus agricultural commodities at no cost to foreign buyers who contract for specified quantities of current and future grain needs.

Requiring a congressionally mandated agricultural trade impact statement for all legislation or Government actions affecting agricultural exports.

And exempting new export credit expansion programs from cargo preference laws.

Mr. Chairman, thank you for the opportunity to share our industry's agricultural policy views. We are committed to achieving positive results in our policy efforts, primarily because it will prove too costly for all Americans if we accept the status quo during this critical period in agriculture.

Senator BOSCHWITZ. Well, I don't disagree with some of these things, in particular. The question of whether or not you think the Secretary may do some of these things or you shall do some of these things. After that, if you lock them into doing certain things you sometimes make very bad projections, and if you say "may," he probably will not do it.

So we are going to have to sort all this out and I thank you for saying that we introduced a good bill, which is basically a credit expansion bill. We are going to have to sort all that out. We like to be a little bit more direct.

As Mr. Bell says, if you are making every sale your price is probably too cheap, and I have observed that in my business. I have had to raise the price from time to time, as often as I could, as a matter of fact. And the same thing applies, with respect to the European Community. We are not pushing hard enough up there, and we are waiting for them to collapse under the weight of their own budget. They do not seem to want to do that.

So I thank you both for your very valuable testimony, and we can talk perhaps a little bit more about rice sometime.

Mr. BELL. I would be happy to do that.

Senator BOSCHWITZ. Thank you very much for coming. We have reviewed a number of the questions, and I think we have heard what your thoughts are, and we will keep them going in the same direction, in the way to satisfy your budgetary requirements. There is a way of keeping the farm industry informed of the infrastructure of the 1970's, and we are not going to be served very well if it collapses in the 1980's.

I thank you both very much for coming.

Mr. Daniel is an economist, and I see you have charts and graphs here.

STATEMENT OF RAYMOND DANIEL, VICE PRESIDENT AND MANAGING DIRECTOR, INDUSTRIES SERVICES, CHASE ECONOMETRICS, PHILADELPHIA, PA

Mr. DANIEL. I would like to illustrate my presentation with several charts and graphs. While they are setting up the equipment, I would like to make the following observations.[1]

U.S. agriculture has become the major force in world food trade. World markets are, however, very complex and radically different from the U.S. domestic market, politics, world finance, embargoes, exchange rates, and other factors besides supply and demand dominate international markets.

My objective today is to discuss the competitiveness of U.S. farmers in world markets. Being unable to locate data on cost of production in other countries which is comparable to U.S. farm production costs, I had to consider other factors which would impact the competitiveness of U.S. farmers in world trade. The spokesman for Cargill implies that U.S. farmers have become noncompetitive to Argentina farmers. Since Cargill supplies U.S. farmers with large amounts of seed and fertilizer then maybe they could drop their prices to help U.S. farmers compete.

The major factors aside from production costs which impacts the competitiveness of U.S. farmers in world markets are: Subsidies, tariffs [that is, barriers to entry], currency differences and other costs such as transportation.

Senator BOSCHWITZ. Let us take Argentina.

What their farmers get, you must consider has some bearing or relationship to their cost of production.

Mr. DANIEL. Not necessarily. It depends on world prices, exchange rates, and subsidies by the Argentina Government. That is what we are trying to get our farmers to do.

Senator BOSCHWITZ. You know, we have a great deal of difficulty in finding out what the cost of production is. I have a difficult time figuring out the variable. Forget what it is in Canada.

Mr. DANIEL. If we were dealing with the automotive or steel industry in world trade, we would be worried about Government subsidized products being dumped into the United States. However, this issue was not discussed when we observed agricultural imports entering the United States. What is the difference?

One of the problems in evaluating the competitiveness of our farmers in world markets is the lack of information. And this is one of the responsibilities——

Senator BOSCHWITZ. Why do not you answer some of those questions.

Mr. DANIEL. My personal opinion is that on the cost side the farmer in the United States is the most efficient. I think if you measure it in terms of production per unit of inputs he is very efficient. I think the highest cost producers in the world happens to be getting the highest price at the farm; that is, Japan and Europe. Why are they getting such high prices and they have the highest cost? I think there is a great disparity between what happens in terms of an economic supply and demand in a perceived free

[1] See p. 67 for the prepared statement of Mr. Daniel.

market in terms of price and what is the real world. Barriers to trade, Government policies, and other factors have eliminated the free trade model for evaluation price and competition. Tariffs, embargoes, and exchange rates that has made U.S. farmers noncompetitive. Government policies be they direct intervention or indirect such as exchange rates or IMF policies on lending money are the factors reducing the competitiveness of U.S. farmers.

We are currently blaming U.S. farm programs for all the problems of high dollar, tariffs, Government embargoes, and so forth.

We measure problems by magnitudes and not by what we can control. What is the bigger problem? U.S. farm prices and loan rates which have declined in normal dollars this past year; in fact, real farm prices and loan rates are back to 1968–70 levels, or the recent explosion of over 40 percent in the value of the dollar. This increase added $1 to the price of each bushel of wheat and 72 cents to the price of each bushel of corn that is the reason we have been losing market share.

Senator BOSCHWITZ. Well, you do not think it encouraged other people to look at whether or not they should get into the business.

Mr. DANIEL. Well, let's look at wheat. During the 1978–79 to 1981–82 crop year the market price of wheat remained considerably above the loan rate. The price of wheat in real terms from about $2.50 to $3, and that stimulated a large upsurge in wheat production. The loan rate did not have an impact on the market price. Many have indicated that there is a lag between price increases and production. Therefore production explosions in 1983 and 1984 were due to the increase in loan rates. Actually, wheat prices and loan rates have gone down since 1980–81, therefore, U.S. and world production should have decreased. Since it hasn't there must be other factors stimulating production.

Let's even look at farm prices in another way. Economist's outside of agriculture evaluate whether specific commodities are overpriced compared with the rest of the economy by looking at real price increases. If farm prices increase faster than general inflation then we begin to loose our competitiveness and also stimulate other production and shifts in demand like what happened with OPEC. However, U.S. farm prices are back to 1968–70 levels. Thus, real U.S. farm prices have gone down since 1974. The farmer is stuck with crop prices that can only buy what they bought in 1970.

Senator BOSCHWITZ. Any increases in productivity and yield?

Mr. DANIEL. Yes. Productivity has increased and in corn real revenues per acre are the lowest they have been since 1974, but higher yields per acre have prevented a return to 1968 levels. In wheat productivity increases have not been sufficient to hold real revenues per acre higher than the 1968–70 levels.

The big problem is the value of the U.S. dollar. Most comparisons are against the deutsch mark, however, this is not a big market for U.S. grain. They are a part of the EC–10 which has high tariffs against imported grains and high farm price supports, limiting what we can sell.

If we also weigh the U.S. dollar compared to where we by volume sold in each country then we find that the value of the dollar has added $1 to each bushel of wheat and 72 cents to each bushel of

corn sold in world markets. This increase has severely hurt U.S. agricultural exports.

Senator BOSCHWITZ. In other words, where you look at the dollar as the major currency, we do not sell wheat.

Mr. DANIEL. That is right. We need to concentrate on the markets where we sell agricultural products.

Senator BOSCHWITZ. By rights we should have been driven out of those markets first.

Mr. DANIEL. Right. If it is small problems you want to deal with then worry about U.S. loan rates. But you would have to reduce farm support prices of wheat to $2 per bushel to offset the explosion in the value of the dollar. So my question is, When we began to talk about what is the real problem with the U.S. agricultural exports why don't we concentrate on the real problem, that is U.S. value of the dollar? The last time we dropped loan rates, exports also dropped. The decline was blamed on something else. You bet it was something else. It was almost a 40-percent increase in the value of the dollar. Actually, the dollar had been declining from 1972 through 1979 giving us a real big advantage in world markets. Any price increases we were having were being partially offset by lower values of the dollar, actually giving us lower prices on the world market. That is all changed. Look at what has happened. Since 1979 the dollar has increased 40 percent while farm prices dropped.

We also have other problems with world agricultural trade. We have had problems with our own Government. Secretary of Agriculture Earl Butz in 1972 said the biggest growth market in the world is Russia. And we should trade with them. We did and it helped stimulate the bringing out of reserve 65 million acres of land. We had the highest increase in the world, and we exploded in the Russian market and they produced livestock. Now, all at once they have had 5 years of crop failures and their demand has gone from 25 to 48 million metric tons, we should be happy, right? Then why are our prices so low? What is wrong? I remember when I started in this business 10 years ago, we watched Russian production like a hawk, did we not? Why has the recent Russian crop shortfall not helped us now? We had 70 percent of the U.S.S.R. market prior to 1979. In 1979 we know what happened, the U.S. embargoed Russia. Since then we have only 30 percent of that market. Was that loss in market share caused by higher farm loans? No! It was caused by U.S. Government intervention. Not by higher farm loan rates. That is why Argentina got the business. They have guaranteed the U.S.S.R. that they will supply them grain.

Senator BOSCHWITZ. What was the percentage in 1984?

Mr. DANIEL. In 1984. I am sorry. It is still about 40 percent.

Senator BOSCHWITZ. Thirty to forty percent?

Mr. DANIEL. Yes. The recovery is due to crop short falls in other suppliers. But, we are not even close to where we were prior to 1979.

Now, I ask the gentlemen from Cargill why did they bring wheat from Argentina. I strongly feel it was not differences in production and marketing costs, but the high value of the U.S. dollar against

the Argentinian peso. I think we have serious problems facing us, with respect to currency devaluations in Latin America.

I would also like to call your attention to a new grain competitor in world markets the EC-10. They are now No. 3 and could be No. 2, if we do not stop them. We used to export into England ever since we were a colony. Since they raised their farm support programs they are exporting wheat for the first time in over 100 years. The European Community is determined to support their farmers.

The EC-10 farm policy is based on import levies which vary with world prices. The local consumer is isolated from both increases and decreases in world prices. How are you going to change their demand when you lower your price? They also subsidize the farmer with target prices, and they provide export commodity subsidies The high value U.S. dollar. Has however eliminated the meed for such subsidies. People said we are going to drive them out of business? This past year their program did not cost them a penny.

Senator BOSCHWITZ. The export restitution.

Mr. DANIEL. Yes. Why? The dollar was so high that they could compete in the world market against us and not have to pay a penny in export subsidies.

Now, when are we going to drive them out of business? We are not. Also, we always imply that the EC-10 is one country. We always like to talk about them as one country. They are not. They are independent countries operating based on their individual needs. The southern part of Europe is very rural and needs very strong farm subsidies. The northern countries are industrial. Therefore, they view the farm subsidies as a tariff on finished goods. Agriculture in the United States has got to get its act together and start including the need of including U.S. agriculture in all foreign trade policy. Agriculture has no voice in negotiating steel trade deals, nor textile deals. For example, when we dealt with China it severely hurt a major wheat market for the United States.

Senator BOSCHWITZ. That is the increased production in China?

Mr. DANIEL. I think that was the statement they made, I have to take them at face value. However, they restricted U.S. grain before they knew their production. I think China decided to restrict U.S. imports because of the textile problem.

Senator BOSCHWITZ. Did they import it from anybody else?

Mr. DANIEL. I think this is a tough question. Agriculture is not a key part of our trade policy.

Senator BOSCHWITZ. Are you suggesting that we go to the trade ambassador and say, listen, school is out on this, or other items, if they do not allow us to take an active part in trade policy formulation.

Mr. DANIEL. I am saying if we make a change in trade policy in steel or we make a change trade policy in automobiles, the U.S. farmers' interest should be considered. The impact of any trade decision on agriculture as should be considered and I don't see that happening.

Senator BOSCHWITZ. Well, let us presume that it should. Is it practical? If you bring corn and wheat into negotiations on automobiles they also want to bring in shoes and textiles.

Mr. DANIEL. They do it anyway. Shoes and textiles get involved.

Senator BOSCHWITZ. Steel and autos.

Mr. DANIEL. When they deal with us, they consider the full impact on other products they trade.

Let me summarize. Why should we worry about the mice in the attic, that is, U.S. loan rates, when there is a monster at the door eating us alive, that is, high value of the dollar and trade restrictions. The monster at the door is eating us alive right now is not loan rates. It is high U.S. dollar and trade restrictions around the world.

Thank you very much.

Senator BOSCHWITZ. What do we do?

Mr. DANIEL. I think we have a real challenge. We have both a short- and long-term problem. If we cannot solve high value of the U.S. dollar problem and we cannot eliminate trade barriers against U.S. agricultural exports, then we must be downsized. It is either going to be the U.S. farmer bearing the brunt of high value of the dollar and trade barriers, or the U.S. Government picking up the difference or the consumer must suffer with lower food supplies and high food prices. The question we have to ask ourselves is which one do we want. Current proposals will force the farmer to take the brunt of all these problems.

The other option is take it out of the Treasury. Well, I do not think we are currently willing to continue this type of program. Farmers are too few in number. The question is, What next? I think we have to be very careful and not fall into the old addage, do we want to continue to sell while losing 50 cents a bushel, but attempt to make it up in volume.

Senator BOSCHWITZ. I have been handed a question. You stated in the past that U.S. agricultural problems would not be as great if we had continued the present program.

Do you still believe this?

Mr. DANIEL. Yes, I certainly do, our analysis indicates that the demand for food products is inelastic.

Senator BOSCHWITZ. You feel that they will be inelastic?

Mr. DANIEL. They are, and have been for the last 10 years. In the short term and intermediate terms; others also support this statement, when these length of runs imply 1 to 4 years.

In the long term everything finally becomes elastic since the demand for a product is inelastic for 1 to 4 years would any business want to lower prices. Not when it lowers total revenue. Thus, prices should be increased to improve total revenue, the farmers' problem is not bushels sales, but revenue. If we keep worrying about volume and not worrying about margin, agriculture is going to eventually die, and we will not have to worry about low prices.

Senator BOSCHWITZ. My experience is at least you cannot get a price unless you have some elasticity and demand is inelastic, then that is a different consideration entirely. People say that the experience with setasides, diversions—do you see a continuation? I am not sure on which format you see it continuing.

Mr. DANIEL. Let me ask you. Where do you think the largest expansion of wheat production in the world has been in the last 6 years. It has been between Arkansas and Georgia. It has not been in any other country. We have made a major expansion in agricul-

tural production in the United States, 65 million acres has come into this decade. Haven't we overdone it a little? What would I have done with PIK, I would have brought that acreage back very slow. Production was reduced 60 million acres and prices went up 40 percent. Then we went fence row to fence row the next year and collapses farm prices.

Senator BOSCHWITZ. I am not sure I agree with that. I think the present policy on wheat that——

Mr. DANIEL. Wheat production did indeed stay very high. And wheat prices stayed low because Mother Nature did not go along with the wheat PIK program like she did in corn. In corn a drought reduced production 10 bushels per acre, and in wheat excellent weather increased yields 4 bushels per acre.

Senator BOSCHWITZ. How would you continue the PIK program? You would have a diversion based on——

Mr. DANIEL. I would maintain a strong acreage setaside program to support market prices. If the Government is willing to pay *x* amount of dollars for a diversion, that is the way I would go. But if Uncle Sam says I cannot pay for it, then I would.

Senator BOSCHWITZ. What would you do with loan rates?

Mr. DANIEL. I would make loan rates a nonissue. Everybody keeps worrying about the loan rate. How many times have you debated loan rates from 1972 to 1977?

Senator BOSCHWITZ. I was not here.

Mr. DANIEL. In fact, they stayed flat for 4 years. Why? The market price.

Senator BOSCHWITZ. The loan rate was so low at that time. Then along came an election, and——

Mr. DANIEL. For 4 years the market price was higher than the loan rate, now inventories are so high they swamp the market thus dropping the price. If the loan rate was $1.50 for wheat, the price of wheat would be $1.50 because of the 1.24 billion bushel inventory.

Senator BOSCHWITZ. It has been maintained that the high loan rate encourages production in other countries. Do you think that loan rates are a nonissue, then?

Mr. DANIEL. I would say they are like a minor problem. One problem is other countries provide their farmers guarantees to produce by import and export tariffs and other subsidies the largest problem is the high value of the dollar.

Senator BOSCHWITZ. What do we do then about the value of the dollar?

Mr. DANIEL. The Senate outside of Agriculture will deal with that. The U.S. Government has to ask itself how long can we permit the loss of U.S. industries because of the high dollar. Macroeconomists say straighten out the deficit. And that seems to be the answer. However, the dollar was supposed to drop when interest rates fell and they haven't gone down.

Senator BOSCHWITZ. I think Mr. Amstutz talked about real interest rates not dropping down.

Mr. DANIEL. I think they have dropped.

Senator BOSCHWITZ. Unfortunately, that is.

Mr. DANIEL. There I would say it is 50/50.

Senator BOSCHWITZ. What do you do?

Mr. DANIEL. I think you have to ask yourself what is it going to take to get the U.S. dollar down. If you can say to the American farmer that, yes, by reducing the deficit I will guarantee you in writing we can correct the dollar by 40 percent, then every farmer should be fighting to lower the deficit. But it may be a necessary condition to lowering the dollar, but I am not sure it is a sufficient condition because there are a lot of other risks in the world. A lot of risk in developing nation's economies, and that risk makes it very hard to justify that the dollar will fall. I am afraid we are going to have to have higher inflation to reduce the confidence in the U.S. dollar.

Senator BOSCHWITZ. Well, that may be the problem that got us into the jam we find ourselves in at the moment. My friends have suggested that during the sixties and early seventies we had a subsidy at the port, the difference between the local price and the world price, and that some type of export subsidy—whether by the use of green dollars or commodities—or the loan in the ECC that they be used to export—make us competitive.

Mr. DANIEL. I like the idea. I like the idea of doing export expansion.

Senator BOSCHWITZ. What happens if we do that?

Mr. DANIEL. In the long term, that is the best way to go. See, I am talking about——

Senator BOSCHWITZ. What happens if we do that? We discussed when we walked over here for breakfast, why will not the other countries respond. Are they going to let us recapture those markets without a struggle? We start subsidizing. They have deep pockets, too. They start subsidizing. Not only that, they feel that we are going to lose our staying power. So is that going to be an effective way?

Mr. DANIEL. Part of it. We will not get 100 percent. If we move into certain markets they will respond. But we should expand the world need for everyone. The question I have right now is where are we going to look for new markets. The one I feel bad about, as a developed nation is, Africa. Should we do something about that? Are we going to do it through the marketplace or through food aid expansion? It depends on how we do it. You can subsidize to specific countries and say you only buy our products. Other countries will not be willing to do that.

Senator BOSCHWITZ. The final question, because we have to get on to other witnesses, is in reference to the title of the hearing, competitive positions of U.S. agriculture. You are convinced that the American farmer is as competitive in not only variable costs, but taking the land cost that now exists. Many people say, and some people have told me that the only way that costs are going to be down is to squeak some value out of the real estate, that being the principal value of a farm asset.

Mr. DANIEL. Up until this last year or two we have all saluted the American farmers for being the most productive, the most progressive in the world. Now since 1979, people have begun to say he is not.

Now, I ask, what changed in the last few years, what change has suddenly made the U.S. farmer go from the top dog to second in such a short time. We have not seen a major introduction of new

technology because the United States has the best technology in the world. It has not been a major transportation change in the world. We still ship on ships, and they do, too. I cannot find anything that has happened in the last few years at the farm level which has allowed other farmers to surpass U.S. farmers.

The only thing I have seen change since 1979 of any magnitude has been the value of the U.S. dollar. It has increased 40 percent compared to other world currencies. The explosion in the value of the dollar is the reason U.S. farmers have become noncompetitive in world markets.

Senator BOSCHWITZ. That is due to the debt structure that the farmers find themselves in. They are here because of the changes that occurred in 1979 in their land values, and they are borrowing against increased land values.

Mr. DANIEL. Since that time we have cut the assets of U.S. farmers 40 percent. They have been going down.

Senator BOSCHWITZ. But in the latter stages.

Mr. DANIEL. It started in 1979. It has been going down in real terms and farmers' problems are getting worse.

Now, farmers have more debt. However, if you put land in at zero, the market prices would still be below his cost of production, thus, lower farm land values won't help.

Senator BOSCHWITZ. Well, in any event, what is your final word on what we should do about the value of the dollar?

Mr. DANIEL. We either have to offset it through farmers' hides or we have to offset it with Government, supports or higher farm price. Those are the only three ways I know of to solve the problem. That is the political decision, and I vote for raising prices.

Senator BOSCHWITZ. Would you vote for a two-price system?

Mr. DANIEL. That is not a bad idea. I would want to research it a little bit more. I do not have all the data. I would have to look at it a little bit closer.

Senator BOSCHWITZ. Thank you very much.

Next is Henry Neshem, president of the National Association of Wheat Growers, accompanied by Don Loeslie, president of the Minnesota Association of Wheat Growers.

Mr. Neshem, if you would start off. We have gone along here for several hours already, and I do not mean to put the squeeze on you timewise.

STATEMENT OF HENRY NESHEM, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, BERTHOLD, ND, ACCOMPANIED BY DON LOESLIE, PRESIDENT, MINNESOTA ASSOCIATION OF WHEAT GROWERS, WARREN, MN

Mr. NESHEM. Mr. Chairman and members of the subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views on the competitive position of U.S. wheat growers in world trade. I am Henry Neshem, a wheat farmer from Berthold, ND, and president of the National Association of Wheat Growers.

Mr. Chairman, for years agricultural exports were one of the few bright spots in the Nation's economy, and the U.S. trade balance always benefited handsomely from strong farm exports. But things

have changed. The surplus which amounted to $20 billion in 1982 dropped to $16.7 billion last year. Now, we are looking at an overall trade deficit of $123 billion which is the largest in the Nation's history.

U.S. wheat exports have declined in both value and volume since 1981, and prices at the farm are the lowest in 6 years. More and more farmers and rural banks are on the edge of bankruptcy, and yet we continue to hear calls from the Government for less support for American agriculture.

The problem, as we see it, is that the world trading environment has changed and too few have recognized it. The situation is clearly not like the seventies when world demand for grain was expanding and a weak dollar promoted the sale of our commodities abroad. Now, the reverse is true, and we see demand for U.S. commodities stagnating as the relative strength of our dollar prices our commodities out of foreign markets and promotes imports of competitor products into the United States.

Farmers are being told that the solution to these problems lies in more market-oriented farm programs, a term that has now become a code word for lower farm prices.

What we need more than anything are profit-oriented programs, and policies which will open up new trading opportunities instead of sealing them off with damaging economic and foreign policies.

It is time to face the fact that our agricultural trade problems are largely beyond the scope of domestic fare legislation.

For example, a new farm bill cannot remove the heavy debt load of developing countries where increased trade potential exists, nor can it change the export policies or the internal support systems of our competitors. A farm bill cannot eliminate the national budget deficit or change the monetary policy of the Federal Reserve Board. It cannot improve our political relations with overseas markets, and it cannot erase the damage that has resulted from protectionism policies which have been implemented to shield segments of our domestic economy from the foreign competition.

A farm bill can stabilize agricultural prices and farm income, and it can provide food security for our citizens and millions of consumers overseas. It can also provide the tools to expand markets.

In short, there are a number of things that a farm bill can do well, and there is a long list of things that it cannot do at all. Fundamentally, it must be seen as a vehicle to promote farm stability and a strong national economy.

Having said this, I would like to turn to a discussion of the current wheat marketing situation, and what the National Association of Wheat Growers feels can be done to rebuild and expand markets for American farmers overseas.

World wheat production in 1984–85 is expected to be at a record 515 million metric tons, a 4-percent increase over 1983–84. World wheat trade is also expected to increase 5 percent this year with 105 million metric tons to change hands. Of this amount, the United States is expected to export 41.5 million metric tons or 39 percent of the total.

The United States has traditionally been a major supplier within the world wheat trade. Our market share has ranged from a low of 33 percent in the late 1960's to a high of 48 percent in 1981.

With total wheat production by the five major exporting nations at an estimated 198 million metric tons this year, and the poor economic conditions of importers, competition within the world market will be fierce. Of major concern is the increase in production by the EEC. In 1983-84 the EEC produced 59.3 million metric tons, during this crop year they are expected to produce 76 million metric tons. With their program of export subsidies, much of this additional production will be forced onto the international market.

The question now becomes what programs and policies can be put in place to increase U.S. wheat exports while assuring an adequate level of farm income? Members of the NAWG have developed programs that will have a marked influence on our competitive position in the world. We urge that you and your colleagues consider these programs for incorporation into forthcoming agricultural legislation.

First, let me outline the major provisions of a farm program that the members of NAWG adopted in January. A full copy of the program is attached to my testimony.

Target prices should be maintained at the current level, $4.38, or increased at the Secretary's discretion.

Continuation of a nonrecourse national loan at $3.30 per bushel, but with a variable repayment rate based upon the average State price received by farmers for their crop.

Require a maximum of 20 percent set-aside if carryover exceeds 700 million bushels in any one year.

Implement a long-term conservation reserve.

Establish farm bases on the amount of land normally planted or considered planted.

Provide Government assistance during periods of declining world market share.

For the purpose of this hearing, I would like to focus on two components of NAWG policy which can improve our marketing opportunities.

The loan program adopted by the wheat growers has several important points that will not adversely affect farmer income while at the same time increase U.S. competitiveness. First, the producer may increase his income through better marketing.

Second, since fewer bushels will be forfeited to the Government, program costs will be reduced.

Third, U.S. farm products would become more competitive in the international market.

Fourth, the loan will not act as an umbrella for world market prices.

Under the program, a farmer would have the option to repay his loan at the average market price in his State which could be quoted twice a month. An example may help in understanding this feature. Say that after a farmer obtained a $3.30 per bushel loan, the State average price later dropped to $3.20 per bushel. He could then redeem the loan at $3.20 and market his wheat, and his total income would not have changed. Or, a grower could elect to settle his loan for $3.20 and hold his grain for a better marketing opportunity. In each example, the bushel would move into the market and not into the hands of the Commodity Credit Corporation where

the high costs of loan forfeiture, lost interest, and storage would be incurred.

This concept provides important flexibility in both farmer marketings and export trade. It promotes the movement of grain into trade channels instead of tying it up in Government inventories, and it also allows market forces to dictate the price of grain.

The second program that will have a marked influence on our level of exports and farmer income was produced through a joint effort of NAWG and U.S. Wheat Associates. In response to a strong dollar and the financial problems faced by many developing countries, the two organizations worked on improving existing export assistance programs. What developed is a set of programs designed and tailored to meet the needs of countries where there is a potential to increase U.S. wheat exports. The additional export effort could add 180 million bushels to U.S. wheat exports annually and reduce the estimated wheat surplus by 36 percent within 5 years.

These additional wheat exports would come at a cost of about $90 million each year. At the same time, $540 million would be saved in Government supply management costs, for a net savings in Government expenditures of $450 million annually. Evidence demonstrates that such a sustained U.S. export effort could force reductions in competitors' wheat production and exports.

While 20 countries have been thoroughly examined under the study by NAWG and U.S. Wheat, certainly others would benefit through the same program of designing our export programs to meet the specific needs of our customers. A copy of the study has been made available to each member of the subcommittee.

Mr. Chairman, these are two examples of how the wheat industry has responded to changing macroeconomic and international market conditions. It takes the will of Congress and the administration to carry out these policies on a long-term and consistent basis to make them effective.

I want to thank you for the opportunity to present the views of NAWG and I will be happy to respond to any questions at the appropriate time.

Senator BOSCHWITZ. It is not clear to me why the price would go below the loan rate.

Mr. NESHEM. That is an assumption about the way tbe market has gone.

Senator BOSCHWITZ. Do you think a farmer would keep the grain, not surrender the loan?

Mr. NESHEM. You see, what you do is buy back, and this would be actually adding to his income, but yet getting the wheat out of Government hands, so to speak, and then moving into the market.

Senator BOSCHWITZ. Do you think in the event the price went down under the loan that the farmer would indeed buy it back?

Mr. NESHEM. I think if I can get the loan at the $3.30 level it is kind of like hedging your crop. He has actually sold it, in a sense.

Senator BOSCHWITZ. What does he want to do that for? Why doesn't he forfeit the loan and take the $3.30 and play the market? You got to take it and run, like Mr. Amstutz said. That was my experience.

We will go on to Don.

Don, would you like to make a further statement?

Mr. LOESLIE. I will see if I can make a couple of comments.

First of all, I would like to thank you, Senator Boschwitz, both my friend and Senator from my home State. I am delighted that you called this hearing together, which is probably the first shot across the bow of what may be many of these in the next year. But we appreciate your taking the leadership——

Senator BOSCHWITZ. As you know, in Minnesota, last summer we held 40 or 50 credit hearings. Before last summer we went and talked to the FDIC and comptroller and said, watch out. We have got some real credit problems coming. Hopefully this is of a participatory nature with better results.

Mr. LOESLIE. Why did they have to be so right in their warnings?

Finding solutions to agriculture's problems is crucial. Not finding these solutions threatens to eliminate over a third of our commercial farmers; eliminate thousands of jobs in agriculture and the agricultural support system; and to seriously affect rural America so even the structure of the schools and the churches will not be the same.

We have long been advocates of free access to foreign markets. However, there is a very definite problem when we as U.S. farmers, who are supposed to be the most efficient grain producers in the world, have wheat imports landed on our shores cheaper than we can produce and transport it. If our trade policy is not corrected soon all of the agricultural industry will be calling for protection as well.

For a number of years we have been trying to point out the impact that high interest rates and the strong dollar have had on our competitive position in the world wheat market. Our exports are declining because of the effect of the strong dollar, and although the announced but canceled importation of Argentina wheat into the United States took us by surprise, it really should not have. Going from a noncompetitive seller to an active importer is the natural progression when the factors causing the noncompetitiveness become worse, as they have, rather than better.

We hope that this hearing will draw attention to difficult problems we are having being competitive, when the dollar is as strong as it is. We also hope that the record budget deficit and the aggressively burgeoning trade deficit will spur the Government to take action that will make us competitive again. Our industry, and possibly our Nation, is at stake.

We have long been promised the export market and access to new markets. President Nixon made the commitment to export. He presided over détente resulting in the Soviets, for a period in the late seventies, and again now, becoming the largest customer for U.S. wheat in the world. Likewise, that period saw the reopening of relations with China, which also has become a market with great growth potential. Each successive President also promised us the export market, but none have advocated it as strongly as the current one.

This administration, however, has a double standard that borders on hypocrisy. They advocate free enterprise, but close off export markets by placing protectionist measures against steel, textiles, automobiles and other products which these countries need to send to us to gain foreign exchange. They want to place agriculture on a

market-oriented economy, free of Government involvement, while they want our farmers to compete and to compete on their own, in competition against the treasuries of other nations. They want us to compete with low prices against the higher cash prices received by farmers in other exporting countries where currency values are more favorable. They want us to compete really against our own Government that has established tax, trade, and fiscal problems which have a negative impact on agriculture.

In a recent letter we received from the Treasury Department on behalf of Secretary Donald Regan, they admit high interest rates have been a problem, and they admit that the strong dollar has been difficult for agricultural exports, but they say despite this they still believe that a market-oriented economy would be the best solution for agriculture. If that is the case, why do we need quotas for automobiles, textiles, and steel? The Treasury Department indicated too, that they would not do anything to bring down the value of the dollar, because it curbs inflation.

Secretary Block stated recently that U.S. agricultural policy is that farmers cannot look to the Government to bail them out when they have hard times. If the Government's policies, however, are a major part of the problem of agriculture, where else can we turn to for relief except the Government?

We hope that this hearing will also highlight what it really means to be market oriented. Argentina, of course, is a unique situation. They have little storage, and need the foreign exchange badly, so they will be dominant sellers for only a short time during the year. But still, look at the numbers. Argentine wheat for export was priced about $1 a bushel below comparable U.S. wheat at the export point. For recent transactions, Argentine farmers received $2.03 per bushel at the farm gate. Can we really afford to take $1 a bushel less for our wheat at the farm gate? Is that what market-oriented really means?

A recent article in our local newspaper, says, and I quote:

> The Reagan Administration is pushing a farm program that, by its own economists' estimates, would drop the price of wheat to $2.04 a bushel within 2 years, and force a "shakeout" that private economists predict would put thousands of farmers out of business.

The article indicates that the projected wheat price would decline by as much as 30 percent, or about that $1 bushel that we mentioned earlier. John Marten, an economist for the Farm Journal predicts in this same article 30 to 40 percent farm failure rate are under the Reagan free-market plan, causing a massive ripple effect that would wash out hundreds of rural banks and small town businesses.

Is that what market-oriented really means? We think this administration's interpretation of market-orientation differs considerably from the export market that we have been promised.

And what will the other exporters do if the United States pursues a market-oriented farm policy and prices fall? There are a lot of opinions on this but no real consensus. It is interesting to note an article in Cargill Investor Services publication Insight of January 21. It reports there have been strong incentives for Southern Hemisphere producers to increase wheat exports. Both Australia and Argentina rely heavily upon exports of agricultural goods for

their foreign exchange earnings. Argentina, for example, derives more than 50 percent of its export earnings from agricultural sector exports. Moreover, taxes on the agriculture sector generate more than 25 percent of the Government's revenues in Argentina. Consequently, expansion of agricultural production is seen as one means of generating the revenue needed to service the country's debt. Obviously, regardless of any U.S. action, Argentina's Government is going to continue to encourage the production and export of increasing volumes of grain. We are helping Argentina do this and helping other exporting countries as well, by marketing our dollar at such high levels.

The U.S. Government, since January 4, 1980, has followed a course of greater involvement in agriculture marketing and, despite band-aids in the form of export financing programs, has followed the course of taking the United States out of the marketplace and in turn reducing farm income. Quite frankly, for the protection that the Government has provided other export sectors, for the severe hardship government policies to aid other sectors of the U.S. economy have placed on agriculture, and as a payment for using food as a political and economic weapon, the Federal Government has an obligation to rural America to protect farm income.

We are learning now that America agrees. A recent issue of Pro Farmer quotes a CBS/New York Times poll that found 65 percent of Americans felt it was a bad idea to spend less on farm programs. As Pro Farmer said, this shoots a hole in the story that administration leaders and some of their private sector followers are telling that "the American people will no longer tolerate such costly farm programs."

The Los Angeles Times also ran a poll, which showed 78 percent of the people did not support cutting Federal expenditures in agriculture, and a story in a recent issue of USA Today, contains information which supports the findings of these polls. I might add that the farm costs might not have been as necessary and certainly not as large if the Government's trade policy was more in tune with an export policy, rather than creating the highest real interest rates in recent memory.

Do not get us wrong, the wheat growers want to be competitive. We want to produce and sell to the growing world market and gain a fair return from the marketplace. But it is unfair for the Government to force farmers to bear the cost of being competitive, when it is Government policies that are making us noncompetitive. We are opposed, therefore, to any programs that will reduce net farm income, and Congress should be opposed as well, because from the results of the polls, we have a majority of Americans on our side.

Again, Senator Boschwitz, we want to thank you for holding these hearings, and for giving us an opportunity to testify. If you have any questions, I would be pleased to answer them.

Senator BOSCHWITZ. Thank, you, too, Mr. Loeslie. I will read the attachments that you have with this statement as well.[1]

Our next witness is Lee Adams on behalf of the American Soybean Association.

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[1] See p. 63 for the attachments to the statement of Mr. Loeslie.

STATEMENT OF JAMES LEE ADAMS, BOARD MEMBER, AMERICAN SOYBEAN ASSOCIATION, CAMILLA, GA

Mr. ADAMS. Thank you, Mr. Chairman.

I am James Lee Adams, a soybean farmer from Camilla, GA, where I grow soybeans, corn, peanuts, and pecans. I appear here today as a member of the board of directors of the American Soybean Association. I serve as a member of ASA's Market Development Committee and the Trade Policy Task Force. I am also president of the Georgia Soybean Association.

The American Soybean Association is a national organization which represents only soybean farmers; ASA's programs are supported by over 450,000 soybean farmers who voluntarily invest in ASA's programs through 25 separate State soybean checkoff programs. ASA seeks to achieve profitable soybean production in the United States through foreign market development, research, producer, and public education, and Government relations.

I appreciate this opportunity to present ASA's comments on the competitiveness of U.S. soybeans in the world marketplace. We commend the chairman for holding these hearings at a time when American farmers face an enormous challenge to produce soybeans and other crops at a profit, in the face of increasing foreign competition and adverse economic conditions.

Three years ago ASA would have assured the subcommittee that the United States was the most efficient supplier of soybeans in the world. We cannot make that claim today. In the last 3 years we have seen our competitive advantage disappear, not because of the actions of soybean farmers, but because of the rise in the value of the U.S. dollar, exorbitant real interest rates in the United States, and the increased utilization of export subsidies by our foreign competitors. American soybean farmers grow soybeans more efficiently today than at any time in history because of new varieties, new pesticides, and new cultural methods. But our increased efficiency can in no way offset either the macroeconomic changes that have occurred in the world economy or the subsidy schemes of our foreign competitors. Unless we see a reversal of some of those changes, we fear our competitiveness will continue to decline, and with it will go farmer profit and national foreign exchange earnings.

The tables attached to our testimony illustrate what has happened to U.S. exports of soybeans, soybean meal, and soybean oil over the last 5 marketing years.[1]

While we still are the dominant producer and exporter of soybeans to the world, we see our share of world soybean production slowly declining. We are holding our own in whole soybean exports. However, the U.S. share of soybean meal exports has declined from 40 percent in the 1980–81 marketing year to only 24 percent in 1985. In 1980–82 our soybean meal exports totaled 6.15 million metric tons, 79 percent as much as that exported by Brazil. This year we will export only about 4.7 million metric tons, only 57.5 percent as much as Brazil's anticipated exports of 8.2 million metric tons. During the same period Argentina's soybean meal ex-

[1] See pp. 48–49 for the tables referred to by Mr. Adams.

ports have soared by over 500 percent, from only 408,000 metric tons in 1980–81 to almost 2.5 million metric tons anticipated this year. We are at risk of becoming the third largest soybean exporter this year, behind Brazil and the European Community.

We are also losing export markets for soybean oil, with current year exports expected to be only 77 percent of the level exported 3 years ago and barely 59 percent of the amount we exported 5 years ago. We are now the third largest soyoil exporter behind Brazil and the European Community. Argentina's soyoil exports have grown over 600 percent during the 5-year period.

Why are we losing our competitive position as a producer and exporter of soybeans and products? There are several reasons, the most serious of which are the overvalued U.S. dollar, unjustifiably high U.S. interest rates, and the predatory export subsidy practices of our foreign competitors. On the production side, our farmers must pay higher and higher real interest rates, which jack up their cost of production and increase their overall debt load. The farm financial crisis which presently plagues U.S. farmers is largely the result of those higher interest costs. Farmers just cannot compete with foreign producers when they have to pay such a high price for borrowed money.

The overvalued U.S. dollar probably has the greatest effect on our export competitiveness. Since August 1981 the dollar's value has risen 26.5 percent against the German mark, 61.5 percent against the British pound, 62 percent against the French franc, and 73 percent against the Spanish peseta. A West German soybean processor pays 9 percent more in marks today for $6 per bushel soybeans than he paid in 1981 for $7 per bushel soybeans. To a Spanish processor our $6 per bushel soybeans seem as though they are worth over $10 per bushel, compared to 3½ years ago. The simple truth is that we are losing export competitiveness because our foreign buyers cannot afford to pay, in their currencies, the dollar prices we need to make a profit. Our costs have risen so much because of the high interest rates we must pay. Combine the overvalued U.S. dollar with the anemic economies of Western Europe and the developing world, it is easy to understand why our soybean and soybean product exports have declined so substantially.

This same overvalued dollar, so much poison to U.S. farmers, is a windfall for our competitors. While we sell our products and buy our imports in dollars, our South American competitors sell in dollars, but by their imports with cruzeiros or pesos. The rapidly rising U.S. dollar allows Brazil and Argentina to undersell us and still pay their farmers a higher real return in their respective currencies for the soybeans they export. At present there is an enormous incentive for expanded soybean production in Brazil and Argentina, solely a result of the escalation in the dollar's value. Unless the dollar declines, we can expect to see substantial permanent increases in South American oilseed production in coming years.

U.S. farmers must also contend with predatory export subsidy schemes employed by Brazil and Argentina. Through a complicated system of differential export taxes, producer financing, below-market export financing and other means, the Governments of

Brazil and Argentina can deliver soybean meal to Europe for as much as $23 per ton less than the United States. We have seen reports of Brazilian soyoil delivered to India at an $80 per ton discount to U.S. soyoil. A complaint filed by the National Soybean Processors Association against Brazil, Argentina, and four other nations currently is pending in the GATT, although no satisfactory settlement has been or is expected to be achieved. In the interim Brazil and Argentina continue these policies, gobbling up U.S. foreign markets and literally giving away over $300 million annually in foreign exchange earnings needed to pay their enormous foreign debts.

We should also point out there are other reasons U.S. farmers are losing export competitiveness. The Soviet Union, an enormous potential market for U.S. soybeans and products, is not eligible for MPN duty rates on the goods it ships to the United States; this hindrance continues to stifle our efforts to develop that market. America's reputation as a reliable supplier has been seriously eroded by four export embargoes over the last 12 years. Brazil and Argentina continue to receive very inexpensive loans and technical assistance from the World Bank, the Inter-American Development Bank, and other international development institutions, to develop their agricultural, processing, and export infrastructure.

Mr. Chairman, unless we take action now we will continue to see our export competitiveness decline, and more and more U.S. soybeans farmers will go out of business. The first and most important step we can take is to bring down our Federal deficits through spending cuts, which will then reduce interest rates and the value of the dollar. Nothing the Congress can do promises to help us more than ultimately balancing the Federal budget.

Second, we must become more aggressive in achieving the elimination of foreign export subsidies by using our leverage to get the GATT, the International Monetary Fund, and the private banking community to force Brazil and Argentina to eliminate these subsidies. We see no reason why we should continue to lend money to Brazil and Argentina, just to see that money used to take away our foreign markets.

Third, the United States must make export expansion the highest priority in the 1985 agricultural bill. We must make sure we have the export tools needed to compete on an even footing with our foreign competitors and to build new and growing markets for our products. At the same time, it is vital that our Nation reaffirm its commitment to agricultural research—to enhance both productivity and utilization. This is an investment that historically has paid handsome rates of return, and one we cannot neglect if we intend to remain competitive.

Finally, we must separate U.S. foreign policy from export programs by establishing normalized trading relations with the Soviet Union and all other trading nations. In these increasingly competitive times we cannot afford to unilaterally cut off the access of our exporters to any market.

U.S. farmers can and will compete with all nations in the future if the Government gives us the assistance we need and if we continually endeavor to produce and supply agricultural commodities as efficiently as possible.

Thank you.

I will be happy to answer any questions you may have.

Senator BOSCHWITZ. Well, if we can get foreign policy out of farm policy, we can expand the budget.

Mr. ADAMS. I will appreciate it if you can do it.

Senator BOSCHWITZ. At this point we will insert the tables furnished by Mr. Adams into the record.

[The tables referred to follow:]

TABLE I.—PRODUCTION AND EXPORTS OF SOYBEANS BY UNITED STATES, BRAZIL AND ARGENTINA 1980–85

[In thousands of metric tons]

Country	Marketing year				
	1980–81	1981–82	1982–83	1983–84	1984–85[1]
Production:					
United States	48,921	54,135	59,610	44,518	51.752
Brazil	15,200	12,835	14,750	15,400	15,700
Argentina	3,500	4,150	4,000	6,200	6,000
Total	67,621	71,120	78,360	66,118	73,452
U.S. share (percent)	72.3	76.1	76.1	67.3	70.4
Exports:					
United States	19,712	25,285	24,634	20,148	20,548
Brazil	1,798	858	1,307	1,591	1,700
Argentina	2,700	1,876	1,417	3,011	2,100
Total	24,210	28,019	27,358	24,750	24,348
U.S. share (percent)	81.4	90.2	90.0	81.4	84.4

[1] Estimate, January 1985.

Source: U.S. Department of Agriculture

TABLE II.—EXPORTS OF SOYBEAN MEAL BY UNITED STATES, BRAZIL AND ARGENTINA, AND EUROPEAN COMMUNITY–10: 1980–85

[In thousands of metric tons]

Country	Marketing year				
	1980–81	1981–82	1982–83	1983–84	1984–85[1]
United States	6,154	6,266	6,449	4,931	4,717
Brazil	7,740	8,347	8,239	7,706	8,200
Argentina	408	736	1,547	2,100	2,450
European Community–10	3,811	4,261	5,302	4,152	4,328
Total	18,113	19,610	21,537	18,889	19,695
U.S. share (percent)	40.0	32.0	29.9	26.1	24.0

[1] Estimate, January 1985.

Source: U.S. Department of Agriculture

TABLE III.—EXPORTS OF SOYBEAN OIL BY UNITED STATES, BRAZIL, ARGENTINA, EUROPEAN COMMUNITY-10, AND SPAIN 1980–85

[In thousands of metric tons]

Country	Marketing year				
	1980–81	1981–82	1982–83	1983–84	1984–85[1]
United States	740	942	918	823	726
Brazil	1,153	852	1,020	987	950
Argentina	64	120	274	375	475
European Community–10	865	948	946	912	876
Spain	411	478	420	450	410
Total	3,233	3,340	3,578	3,547	3,437
U.S. share (percent)	22.9	28.2	25.7	23.2	21.1

[1] Estimate, January 1985.

Source: U.S. Department of Agriculture.

Senator BOSCHWITZ. Mr. Sears is our next witness.

STATEMENT OF EARL W. SEARS, EXECUTIVE VICE PRESIDENT, NATIONAL COTTON COUNCIL, MEMPHIS, TN

Mr. SEARS. Thank you, Mr. Chairman.

I am Earl W. Sears of Memphis, TN, testifying for the Cotton Council. I do want to thank you for including cotton into this excellent hearing. Cotton acres have a way of moving into beans and wheat on occasion.

Our industry's raw fiber export trade has fared reasonably well, but in the domestic market, we are simply being overwhelmed by textile and apparel imports.

In the last 2 years, U.S. raw cotton has held its share of world trade better than most other farm commodities. And we have done so despite a 21-percent increase in foreign cotton production during the last season. This has occurred almost entirely in China. Last year, the Chinese produced more cotton than the United States and Russia combined. In fact, the Chinese have more than doubled their cotton production in the last decade.

We competed successfully against foreign growths due in part to short crops in Russia and Pakistan, and China's lack of facilities for exporting large volumes of cotton.

Three other keys to our success are policy related and longer term in nature.

One is the market-oriented loan formula we have had since 1965. It has seldom interfered with world price competition. The only time it put a floor under market prices was for just a few months in the global recession of 1982–83, a situation when a price floor would be expected to function. Much of the cotton held in the loan during this period was sold at significantly higher prices the next year.

The second key to our success has been an aggressive market development program funded largely by USDA's Foreign Agriculture Service and conducted by our overseas arm, Cotton Council International.

The third is the judicious use of Government export credit arrangements which, over the years, have been used effectively to build and hold markets for millions of bales of U.S. cotton.

Unfortunately our relatively optimistic picture is changing and the outlook for the future is of much concern.

The small crops in the Soviet Union and Pakistan, and China's inability to export large volumes of cotton may be relatively short-term situations.

Though world cotton production in 1984–85 increased at a record rate, due primarily to another major increase in the Chinese crop, world consumption increased only slightly. Consequently, world stocks have increased dramatically and there is unprecedented competition for markets.

The overriding factor, of course, is the continued strength of the dollar. It has increased the price of our exports; decreased the cost of imported textile and apparel products; and, stimulated foreign cotton production to record levels.

Today, we face the dilemma of oversupply, static consumption, and a declining domestic market due to a flood of imports, all complicated and exacerbated by the strong dollar.

The solutions are far from simple, but there are a few fundamentals to follow. First, we need to recommit to helping build and leading others to work to increase world consumption.

Second, we need to continue to strengthen U.S. cotton's market development programs.

Third, we need to adequately fund and realistically allocate export credit resources.

Fourth, we need to expand research programs which enable our industry to be the most efficient, low-cost cotton fiber producers in the world.

And fifth, and most urgent of all, we need to deal with the deficit in a bipartisan manner.

For this reason, the Council is urging congressional, administrative, and Federal Reserve Board actions to restore more reasonable relationships between the dollar and other currencies.

We also are calling on the President to appoint a bipartisan commission to recommend ways to reduce the Federal deficit and restore sound fiscal policy. In our opinion, this would increase the competitiveness of cotton and all agricultural products in world markets far more than anything else our Government could do.

The challenge is enormous, but we are confident the agricultural community can work with the Congress and the administration to develop solutions. Our future is at stake.

Thank you for allowing us to present our view.

Senator BOSCHWITZ. Thank you for your very interesting statements, Mr. Sears. I am not as familiar with that as I am with some of the other commodities. On rice, I am fairly familiar, and I will make myself more familiar with the complete study of the farm bill.

Mr. Gabbert, I understand you do not have a prepared statement, so you will just proceed.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION, ARLINGTON, VA

Mr. GABBERT. Mr. Chairman, I commend you for having sat here for this long. We have talked about pimples and all kinds of other different things. In the interest of time, I will keep my remarks short. I will provide a written statement.[1]

Senator BOSCHWITZ. Do that. We have heard certain things about the dollar and other things.

Mr. GABBERT. First of all, my name is Stephen Gabbert. I am executive vice president of Rice Millers' Association. I will try to confine my remarks to some basic points and avoid generalities.

Basically, rice is an export-dependent crop. We have the same problems as other commodities. Maybe a little different in terms of degree. We view the trade title as the most important part of this farm bill. What is truly going to make it market oriented. Without any kind of substantive trade title we are going to see a budget-oriented bill. That has been said in different ways today.

Senator BOSCHWITZ. I invite you all to, within the space of a page, write what you think should be in that page.

Mr. GABBERT. That is what I will address at this point. I think there are two areas that I would like to review. One is, the tools and authorities in place that we are not using now.

Second, we need some new authorities. As far as those tools that we do have, we could be using the Public Law 480 Program in a much more aggressive way. There are a number of encumbrances that were placed on the Public Law 480 Program since 1977, which make it difficult to operate. I have been involved with Public Law 480 for a number of years, and have seen it deteriorate to the point where the interagency process has become an impediment. I do not believe this can be solved with more legislation, because you cannot legislate competence. Perhaps the solution is more a function of making some readjustments and changes in the executive branch.

The Secretary of Agriculture has the authority under the CCC Charter Act to implement an export payment-in-kind program. We have testified and supported this concept for the past 3 years. As far as new tools are concerned, you are going to have to mandate some authorities in order to avoid the rhetoric of the last 3 years. For example, we have had on the books since 1978 the GS-301 Program, an intermediate credit guarantee program, which could be extremely helpful right now in dealing with the Third World liquidity problem.

Regarding problems of access or U.S. agricultural products, the rice industry has achieved success in two areas, Japan and Taiwan. There are not many groups who have gotten anything out of Japan. Perhaps there would be more success stories if there was more aggressive action on the part of the administration. Seriously pursuing access is like going to war. You have to examine and use all of the issues involved. Traditionally foreign policy uses agriculture. Well, agriculture can use foreign policy, too. I believe it is a

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[1] See p. 66 for the prepared statement of Mr. Gabbert.

matter of USDA officials being more aggressive and getting more involved in terms of pushing for access.

We could be doing more in tying trade and aid together—make that a policy. The United States is providing foreign assistance under economic support funds and the commodity import programs. We also have Public Law 480. We essentially have a mixed bag of various types of assistance programs that the United States can provide which should be used to leverage commercial purchases. For example, take Egypt, which is receiving large amounts from assistance programs. Yet they buy flour and wheat from Europe. We should not allow this. We should make it clear to any country that our assistance is tied to commercial purchases of U.S. agricultural products.

These are some areas where we have tools that we could be using.

USDA—I have seen it in the last several years—has declined in influence in relation to other agencies. I don't think the Congress will be able to do anything about this with legislation. This is a responsibility of the executive branch and of USDA to recapture its position of authority and influence. I think this is part of the broader problem.

As far as new tools that would be helpful in expanding markets, one is a program called Food for Progress. This was announced by the President several weeks ago. There has been a review within the administration to decide just what this program is going to be. This process is actually an effort to try to kill Food for Progress. I think the Congress has an opportunity to take the bull by the horns and mandate implementation of Food for Progress, a multiyear program that utilizes existing resources and assets, such as CCC inventory, to uplift drought-stricken African countries economically. This is what we need in order to build long-term markets.

Another new tool, which has also been mentioned, is an export restitution program, or a monetary compensatory program that is going to deal with the value of the dollar. This should be authorized and mandated.

Another new authority, is to mandate that when CCC stocks reach a designated level, an export-payment-kind is automatically triggered. Unless you make these authorities mandatory you will continue to go through another rhetorical exercise. To paraphrase Will Rogers, we have been talking about the export problem long enough. We have to come to the point of doing something about it. You will have that opportunity within the context of the trade title of the farm bill.

Thank you.

Senator BOSCHWITZ. Why don't you be sure that we can read the record. Are you going to put this in writing, too?

Mr. GABBERT. I will be happy to.

Senator BOSCHWITZ. Thank you very much.

The hearing is adjourned.

[Whereupon, at 1:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF HONORABLE JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

I would like to thank Senator Boschwitz, Chairman of the Foreign Agricultural Policy Subcommittee, for holding this hearing.

Examination of the competitive position of U.S. agricultural commodities in a global trading environment is essential to gaining an understanding of appropriate U.S. domestic and export policies.

Traditionally, American producers have heralded their productivity and efficiency. This has been accepted without question and indeed, American producers are truly productive and efficient.

However, there is growing evidence that American agricultural productivity is not increasing at the rate it once was--and that it may be leveling out. At the same time, producers in other countries are increasing their ability to produce and compete with American farmers in the world market.

It is particularly distressing to watch American market-share slip away from many commodities. Market-share is a more important indicator of our competitiveness than the absolute total quantity exported. We can gauge our performance relative to other exporters by examining market-share.

Producers are well aware that the U.S. market-share for grains has dropped precipitously. This is due of course, to the grain embargo of 1980. Although world grain trade volume remained fairly constant from 1979 to 1983, the U.S. share dropped from 59 percent to around 50 percent. Obviously, other countries are picking up our customers. This distresses farmers because their economic well-being is directly linked to exports. They simply must export to prosper.

I fear that current economic hardship being experienced by agriculture in many parts of the country may be clouding the importance of exports in correcting the farm income situation. In fact, some of our actions intended to improve farm income have actually aggravated the problem. While market-share was declin-

ing in the late 70's and early 80's, the level of price supports more than doubled. Our strong dollar further boosted the support level when figured in the currencies of importing countries.

America has a natural comparative advantage for many crops. We have abundant land resources and the technology to compete effectively in the growing global market, especially for land-intensive agricultural commodities such as grains and soybeans.

However, our future competitiveness will depend on policies adopted by the United States--monetary and fiscal policy, trade policy--and farm policy.

Farm programs must be flexible in order to respond to changing world conditions, internally consistent, long-term in design, sensitive to all elements of the agricultural production system, and fiscally responsible.

I am confident that the hearing today will be helpful in understanding the international implications of our domestic farm policies. I thank and commend Senator Boschwitz for his foresight in taking up this most important and pivital subject.

STATEMENT OF HONORABLE ALAN J. DIXON
A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I would like to take this opportunity to thank the distinguished Chairman of the Agriculture Committee, Senator Helms, for calling this hearing this morning.

It is high time the United States Senate and the Committee on Agriculture, Nutrition, and Forestry address the disturbing decline in our export sales.

Any recovery in our agricultural sector will depend upon our export markets, since a major share of total U.S. agricultural production is exported. The result is that many, if not most, American farmers are economically dependent upon expanding our exports. However, instead of growing, exports are declining, with disastrous impacts on the farm community.

Agricultural exports have declined from $44 billion in 1981, to $37.9 billion in 1984. This drop in our exports can be attributed to many factors: the world recession, the strength of the U.S. dollar, the debt of many potential importers, and the use of subsidies and import barriers by many of our international competitors.

If we are to compete successfully in world markets and save our farmers from further devastation, we need to explore many alternatives. It is my hope that this forum will be the beginning.

STATEMENT OF DR. W. B. SUNDQUIST, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MINNESOTA

Changes in Productivity and Technology

Total productivity in the U.S. farming sector more than doubled between 1940 and 1982. This occurred because output increased by more than 130 percent while value-weighted total input use increased only sightly (Table 1). According to one estimate (OTA, 1981), by 1979 the cumulative effect of this continuing productivity growth on national income was measured at an annual flow rate of $112 billion. And, the rapid growth in commercial exports of U.S. produced farm products during the 1970s attests to the international competitiveness of the U.S. farm production sector, particularly for wheat, feedgrains, and soybeans.

With high productivity growth and expanded export markets, the aggregate investments in Agricultural R & D, both public and private, have earned high rates-of-return in recent decades. Annual returns on public investments in agricultural research have been broadly documented to fall in the 35 to 100 percent range (Evenson, et al. 1979). And these returns have been high for both technology-oriented and science-oriented agricultural research. The continued increases in private sector agriculture R & D investments, estimated at $1.6 billion in 1979 (Malstead, 1980), suggest that these investments are also earning high returns.

Partial productivity growth in the farming sector has not occurred uniformly with respect to all of the several major resource categories. For example, farm labor inputs declined about 80 percent between 1940 and 1982 mainly as a result of mechanization. As a result, the partial productivity index for labor rose more than 11-fold. A tripling of mechanical power and machinery inputs was the result of a shift to more, larger, and increasingly sophisticated tractors and other machinery units. Later in the period, as farm units became fewer and larger, a decline occurred in the total number of units for many classes of machines but their average size continued to increase.

At the other end of the resource adjustment spectrum from labor, agricultural chemical inputs rose by more than 11-fold between 1940 and 1982 as the use of chemical fertilizers and pesticides grew dramatically. Although fertilizer is largely a land augmenting input, herbicides are in large degree a substitute for tillage (and associated labor) inputs. Thus a portion of these chemical inputs also contributed to the decline in farm labor requirements.

Clearly, over the entire 42-year period there was a massive substitution of new technology (primarily in the form of purchased inputs) for farm labor. Real estate inputs, meanwhile, were virtually unchanged in 1982 as compared to 1940. But, as a result of increased output, the partial productivity for farm

real estate more than doubled. Although the farming industry has changed from being labor intensive to being capital intensive, one needs to avoid confounding the increased capital requirements resulting from new purchased inputs (new technology) with those resulting from inflation in land prices. Both their causes and their influences are greatly different.

Technological advances have provided the capability for dramatic increases in the productive capacity of U.S. agriculture. Among the various commodity groups, oil crops showed the highest output growth rate from 1940 to 1982 with soybeans having a more than 20-fold increase. Output growth was particularly high in the 1960s and 1970s when expansion was fueled by both a consumer shift to vegetable oils and an increased demand for high protein feedstuffs. And, while grain and oil seed producers were able to find much expanded export markets in the 1970s, livestock producers were not. Thus, except for large increases in boiler and turkey production, mainly for domestic markets, livestock producers have been constrained rather severely by the effective demand for their products. As a consequence, productivity gains in the livestock sector, although still substantial, have probably been slowed some by the existence of substantial excess capacity.

In sum, the productivity impacts of changes in farm technology have been large and pervasive. And they have pushed the productive capacity of U.S. Agriculture to the point where it can now supply domestic markets and still have 100 million acres of cropland equivalent or more to devote to supplying export markets. But this does not mean that additional new technology and future productivity gains are not also of crucial importance.

Impacts of New Technologies on Structure and Costs

As one reviews the sources of new agricultural technology since World War II, it is apparent that much of the productivity gain can be attributed to three sources: labor saving mechanization; agricultural chemicals (particularly fertilizers, pesticides, and feed additives); and modifications in biological systems (particularly through the use of improved crop varieties and animal breeds). More effective use of water resources through moisture conservation and irrigation has also made a substantial contribution to productivity gains.

Generally speaking, most new chemical and biological technologies became available to farmers regardless of their size of operation. Most mechanization technologies, however, while reducing the drudgery of almost all farm work, also provided both the technical feasibility (via reduced labor inputs) and the economic incentive (via increased size of business) for growth in size of firm. Moreover, the economics of acquiring both technical information and managerial skills has probably also favored the medium-to-large scale production units over the smaller ones (Ball and Heady, 1972). So has the availability of size-related economies for purchasing conventional inputs and for marketing

output (Krause and Kyle, 1970; Krenz, et al., 1974; Smith, et al. 1984). The overall impacts of these several size increasing inducements is evidenced by the continued increases in size and decreases in the number of operating units in commercial agriculture.1/ It is also evidenced by continued increases in size and decreases in number of new technologies are still working their way through the farm production system. A recent slowdown in rate of change in farm size and numbers suggests, however, that a good part of the "technology induces" structural change may have already occurred.

Real production costs for many agricultural products, particularly field crops, declined significantly during the 1950s and 1960s. At the same time that major productivity gains were occurring due to technological change, the real price of a number of production inputs (particularly fertilizer and fuel) were declining. Even the nominal price of nitrogen fertilizer fell from $198 per ton to 1953-54 to $60 per ton (less than one-third of its earlier period level) in 1973! However, during the period 1974-80, rising real prices for land, machinery, energy and credit coupled with a slowing of yield gains for some crops, pushed real costs (per unit of output) above the levels of the preceding period. As a result, with declining real commodity prices, a number of farmers now find themselves in a basic cost-price squeeze in addition to the cash flow difficulties associated with a large debt load and high interest rates. And, although increased real production costs do not constitute a threat to the adequacy of domestic food supplies, they do constitute a potential threat to the future competitive position of U.S. produced agricultural commodities in world markets.

Other Impacts of Past Technologies

Other papers at this symposium treat the relationships between technology and natural resource quality. My very brief personal perspective is that there are some important selected cause-effect relationships between farm production technologies and environmental degradation (soil erosion, ground water mining and toxic pollutants and the prime examples). None of these problems is probably so great that it cannot be brought under effective control with modest effort and investment. It seems likely, however, that the solutions lie more with "targeted" control programs than with reductions in commodity exports. This is to suggest that most technology related environmental problems need "specific remedies" and not broad, indirect policy treatments. It is not to suggest, however, that these effective remedies will come easily.

New Technology

The significance of new technology is that it permits the substitution of knowledge for resources, or of inexpensive and abundant resources for scarce and expensive resources, or that it releases constraints on growth imposed by inelastic resource sup-

plies (Ruttan, 1982). In the process past new technology has often also provided a "productivity dividend".

No one can predict which new technologies will be developed and found useful for implementation in the future farm production system, but something can be said about the likely nature of at least some of them.

First, most new technology will probably be based heavily on the principles, relationships, and techniques developed in the basic sciences. An example is the emerging biotechnologies with their numerous potential applications (for yield increases, disease control, etc.) in plant and animal production. Other new technologies will result from applications of discoveries in chemistry, physics, genetics, physiology, and other fields of science.

Second, many new technologies will include inputs from information and management sciences. An example is that of computerized information and decision aids for farm management. Another example is the use of space age sensing technologies to monitor plant disease problems. Computerized information and control systems will also play a key role in the development of other new technologies such as a broad range of electronic sensing and control mechanisms. Improved application rates and timing of water use in irrigation are obvious uses for such mechanisms. Though most of this new information and management capability will not produce new production function frontiers, it will reduce the differential between technology "on the shelf" and that with widespread utilization "in the field".

Third, there will be attempts to develop new technologies which conserve fossil source energy and which reduce the adverse environmental externalities of existing techologies referred to earlier.

Of these several broad categories of technologies, only the first and second can be expected to contribute substantially to future "productivity growth" as such. Moreover, any broad based productivity gains resulting from the emerging biotechnologies will probably not occur until after the mid 1990s.

Assessing Future Productivity Gains

A review of past aggregate farm productivity data indicates some leveling off in total farm productivity since the mid 1960s (Table 2), but an even bigger concern for the future is that the past sources of productivity growth have now been heavily exploited and that future growth rates may decline severely. This concern is magnified by the stagnant (and in recent years declining) real rates of investment in public research which generated much past farm sector productivity growth (OTA, 1981).

There are also a number of indications that some of the sources of past productivity gains may have about "spent "out" their major contributions. For example, the current labor input in crop farming is small (5 percent or less of total costs for major field crops). It is somewhat higher, but declining, for animal products, and for most specialty crops. As a result, mechanization technology probably cannot greatly increase aggregate productivity in the future. Certainly it cannot have the absolute impact it has already had. There just is not that much labor left to save!

Agricultural chemicals may also have already made their major contributions to productivity increase. Recent analyses suggest, for example, that the contribution to annual corn yield increases of nitrogen fertilizer (along with associated upgrading of other components of soil fertility and plant population levels) was only about one-fifth as great in the 1970s as in the late 1950s (Sundquist, et al. 1982). The reason for this decline is the obvious one that while in the mid 1950s only about 1.1 to 1.2 billion pounds of elemental nitrogen were applied to corn as fertilizer, by the late 1970s the amount was about 8 times that of the earlier period. As a result virtually all of the corn acreage now receives nitrogen fertilizer applications and much of this acreage at treatment levels approaching the economic optimum.2/ Similarly, while only about 20 percent of the corn acreage received herbicide treatment in the mid 1950s, virtually 100 percent now receives such treatment. And, the resulting control of weeds is, in general, very effective. One could cite other examples of existing technologies whose potential productivity gains have already been exploited in the main.

There are a number of other technologies, such as conventional plant and animal breeding programs, which continue to make a substantial contribution to productivity gains. And, the quality of management of U.S. farms continues to improve. Nonetheless, one thing is clear: "continued productivity gains depend on a continued flow of new technologies". This flow, in turn, depends on a continued investment in effective R & D in both the public and the private sectors.

When one aggregates the expected impacts on future productivity of past and expected future technologies, it appears more reasonable to project a productivity growth rate to the year 2000 probably only slightly above the 1925-50 period rate (1.3 percent-per-year), as compared to the much higher rates realized since 1950.

A Look Ahead to 1985 and Beyond

As one looks to agriculture's productivity and technology base in terms of new food and agricultural policy legislation in 1985, two somewhat conflicting perspectives evolve.

On the one hand, we now have an existing production capacity to service domestic markets and to produce in excess of existing exports markets. Thus, in the short-term it will be necessary to withhold some available resources from agricultural production in order to keep farm income from dropping to extremely low levels.

On the other hand, U.S. farmers have now used up a substantial portion of the productivity gains available from past technologies. And their capacity to compete effectively in world markets in the future will depend heavily on the development of new technologies and the maintenance of existing ones. Thus the short term and long term productivity needs of the U.S. farm sector probably differ substantially.

When all factors are considered, it appears that policies which curtail the potential for new technologies and future productivity gains should not be promulgated even in the face of significant short term overcapacity in the U.S. farm production system. After all, when all resources are effectively employed, the only source of real income gains to both producers and consumers is increased productivity. Moreover, the R & D process necessary for the generation of new technologies is a long term phenomenon ill suited for turning off and on in response to short run supply-demand conditions for individual farm commodities.

It may well be, however, that this is an ideal time to focus policy attention on procedures for reducing the adverse environmental and equity (income distribution) impacts of past technologies. The current supply-demand scenario for most major commodity groups is such that efforts to clean up environmental and equity problems would not be in conflict with aggregate output requirements. For researchers this would also probably be an ideal time to evaluate past technologies and productivity rate gains on a commodity--and region--specific basis. This could help identify future research and technology needs. Our available knowledge base, particularly for total productivity, is mainly on an "all crops" and "all livestock" categories basis. There is reason to believe, however, that some large differentials exist in the adequacy of current technologies and in the rate of past productivity gains among individual crop and livestock commodities.

Footnotes

1/ It appears likely, in fact that official (Census) data on the number and size of farm units continue to lag behind the actual shift to larger "operating" units. Actual operating units often include the cropland rented from one or more other "Census" farms.

2/ With rapid growth in both the acreage fertilized and the treatment rate per acre, the marginal physical product (contribution to yield from the marginal increment applied) of nitrogen fertilizer used for corn production was estimated to be

less than one-fifth of its 1954-60 level in 1971-80. This is a good example of the law of diminishing returns in action.

Table 1: Indexes of U.S. Farm Output, Input, and Productivity (1977=100)

Year	Total Output	Total Input	Productivity
1940	50	97	52
1945	58	100	58
1950	61	101	61
1955	69	102	67
1960	76	98	77
1965	82	96	86
1970	84	97	87
1975	95	96	99
1977	100	100	100
1979	111	105	106
1980	103	103	101
1981	118	102	115
1982	117*	100*	116*

*Preliminary

Source: Economic Research Service, U.S. Department of Agriculture.

Table 2: Average Annual Rates of Change (percent-per-year) In Total Output, Inputs, and Productivity in U.S. Agriculture 1900-1979.

Item	1900-1925	1925-1950	1950-1965	1965-1979
Total Output	0.9	1.6	1.7	2.1
Total Input	1.1	0.2	-0.4	0.3
Productivity	-0.2	1.3	2.2	1.8

Source: Ruttan (1982).

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(The following material was submitted by Mr. Don Loeslie; other submissions will be retained in Committee files. See page 42 for the oral statement of Mr. Loeslie.)

Department of the Treasury
Office of Assistant Secretary
For International Affairs
Washington, DC 20220
January 25, 1985

Mr. Donovan C. Loeslie
President
Minnesota Association of Wheat Growers
Box 602
Red Lake Falls, Minnesota 56750

Dear Mr. Loeslie

Secretary Regan has asked me to respond to your letter describing your views concerning the problems facing American agriculture. We agree that severe problems face many in the misgivings you articulated so well; nonetheless, we believe that a more market-oriented agricultural policy is the best means to achieve resolution of agriculture's problems.

High interest rates have indeed been damaging. Previous policies encouraged inflationary expectations and high interest rates and it is the slow decline of interest rates that is probably the principal concern of farmers today. Nevertheless, interest rates have come down from the extremely high levels of 1980 and give us reason to believe we have made significant progress in our battle against inflation. It is vital that we avoid policies which might reignite inflation. Farmers, above all, cannot tolerate the higher interet rates, which would follow.

The strong dollar clearly hurts internationally traded goods such as agricultural products, but it also helps to hold down inflation. In any event, it is important to realize that today's exchange markets are so vast (perhaps $20-30 trillion of transactions annually) and flexible that there is little that governments, even the United States Government, can do by way of intervention to affect the value of the dollar. The strength of the dollar simply reflects the performance of the U.S. economy, expectations that it will continue to perform well, and the perception of the United States as a safe haven for investors here and abroad. It would, of course, not be prudent to make economically damaging changes in the U.S. economic policy as a means to weaken the dollar.

It is important to note, however, that exchange rates by themselves do not determine export demand for agricultural products. For example, the Soviet Union will purchase record breaking amounts of grain this year. At the same time, shipments of corn

to the European Community continue to decline, because of its protective wall against imports and incentives to increase farm production. The debt problems and slow economic growth in developing countries also have hurt U.S. exports.

We agree with you that sound monetary and fiscal policies and adjustment to market opportunities play the main roles in the health of the farm economy. We are clearly mindful of the difficulties which adjustment to non-inflationary growth places on agriculture, but we cannot propose policies that will lead us back to the inflationary times of the past. I have read your letter and presentation carefully and assure you that your recommendations will receive appropriate consideration.

Sincerely,

Hazen F. Gale, Director
Office of Commodity Poicy

(Reprint from Professional Farmer, Jan. 1985, Vol. 13, No. 4)

Annual crop summary zaps corn. Friday afternoon's final 1984 corn crop estimate came in at 7.65 billion bu., up 123 million bu. from the previous estimate. The increase was about twice the average pre-release guesstimate. Also hard on price prospects was a 52 million bu. boost in the 1984 sorghum crop.

Report kind to soybeans. USDA's final estimate came in at 1.86 billion bu., 41 million bu. below the previous estimate. The cut was far deeper than the trade had expected. But indicative of pervasive bearish psychology, traders tell us they're reluctant to respond too bullishly until they see confirmation in the Feb. 11 Grain Stocks report.

Guess what! Urban America behind you! A nationwide CBS/New York Times poll just released has demolished one of the major arguments for drastic cuts in government farm spending. That argument: The American people will no longer tolerate such costly farm programs.

Here is the question put to a scientifically valid cross-section of America: "In order to reduce the size of the Federal budget deficit, do you think it would be a good idea for the government to spend less on programs to help the farmers, or would that be a bad idea?" Note the careful wording of the question. No talk of "gutting the farm program," just spending less. And yet, an astounding 65% thought it would be a bad idea! Only 27% supported it. Even more astounding, the percentages were much the same whether from large urban areas or rural areas.

What it means: Our message is getting through! The majority of Americans accept farmers' charge that since inept government

policy is responsible for the high interest and strong dollar that is killing us, we are absolutely justified in demanding that government maintain adequate safety nets for us until more responsible policy has brought down those interest rates and dollar values.

Farm solidarity wins major compromise! Thoughtful, reasoned arguments by a coalition of grower organizations from A to Z has already won a major farm bill compromise with the administration on recourse loans. Instead of denying the forfeiture option on all loans, USDA has agreed to continue the option (nonrecourse loan) for up to $200,000 per farmer. Only loans beyond that level would be recourse loans (no forfeiture option).

Who says we're powerless? We're concerned about that hopeless, us-against-the-world pessimism growing like weeds among us. The preceding items are convincing evidence that an articulate minority (farmers) can still have enormous power. But our views must be presented in a way that makes it clear we're not demanding favoritism or unwarranted protectionism, but only asking for basic fairness and a concern for longterm consequences as well as shortterm objectives in policy decisions.

Reserve warning just in nick of time! Those of you who acted fast on last week's warning that a halt to Reserve conversions was under consideration made it just under the wire. Midweek, USDA announced 1984 wheat and feed grains are eligible to go into Reserve as regular loans mature, but also announced those holding prior Reserve contracts would no longer be allowed to convert to Reserve VI in wheat or Reserve V in corn.

Credit crisis to preempt farm bill debate. The massive media coverage of the growing crisis in agriculture the past couple weeks has had tremendous impact. Most significant is the fact that conservative Republicans both within and outside the government are calling for concentration on the immediate problems of high interest, low income and falling land prices before Congress even tackles farm bill issues.

Trade drills 13-state Cattle-on-Feed report. Average pre-report guesstimates nailed total numbers on feed Jan. 1 (up 7%), 4th quarter placements (up 4%), and 4th quarter marketings (up 1%). Despite what would thus appear to be a neutral report, we could see a little strength because if analysts were worried about anything going into the report, they were worried that marketings had fallen behind and that feedlots were not current. Friday's report laid such fears to rest. Of interest, steers on feed Jan. 1 were up only 4%, while heifers on feed were up 14%. We'll have implications of that next week.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT
THE RICE MILLERS' ASSOCIATION, ARLINGTON, VIRGINIA

Mr. Chairman, my name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Florida, Louisiana, Mississippi, Tennessee, and Texas. RMA members process all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

Rice is an export-dependent crop. The economic survival of all segments of the United States rice industry is closely linked to the ability of marketing segments to competitively sell rice into the international market. In 1980, the United States was the world's largest rice exporter, accounting for approximately 23% of the international rice market. During the period 1981-85, United States global market share declined to 15%, while Thailand, our nearest competitor, expanded its market share from 22% to over 37%.

United States loss of global market share has been due to the following factors: 1) four successive good Asian rice crops; 2) high value of the dollar; 3) excessive Third World debt; 4) aggressive Thai government support for rice export policies and programs; 5) inflexibility of U.S. rice policies such as implementation of supply-reduction and stock-building programs; and 6) failure of the United States government to recognize the reality of the international marketplace by allowing competitor nations to expand market share through the use of export subsidies and other export enhancement mechanisms.

The present export price spread between Thai and U.S. rice is approximately $200.00 per metric ton. In fact, Thailand believes that it can expand market share within the next several years to about 50% of the total world rice market.

Presently, U.S. rice mills are operating at less than 60% of total capacity. Continued operation at this level will adversely impact on the economic interests of both farmers and millers, as approximately 50% of milling volume is accounted for by farmer-owned cooperative rice mills. If current rice legislation is not made more flexible, it is expected that the United States rice industry will continue to lose export market share and contract to an area level of about 1.8 million acres out of a production base of approximately 4.2 million acres. In addition to the severe economic disruption of the industry and related service industries caused by this shrinkage, hundreds of millions of dollars invested during the past twenty years by farmers, millers and the U.S. government in export market development programs will have been wasted.

In view of the foregoing, The Rice Millers' Association (RMA) proposes the following recommendations for the consideration of policymakers in developing a trade title for the 1985 Agriculture Bill:

In general, we believe that government polices and programs should: 1) aggressively assist and facilitate export marketing; 2) expand profitability potential and opportunity of all industry segments; and 3) enable rice to be sold on a competitive basis.

An aggressive export should be established in the national interest that provides the following: a) mandate an export-in-kind program when CCC stocks reach designated levels; b) establish mandatory retaliatory mechanisms that will be implemented against countries which unfairly deny access to U.S. agricultural products; c) implement a "Food for Progress" program, separate from PL-480, that utilizes CCC inventories on a multi-year basis to leverage establishment of long-term economic development policies in most-seriously affected countries; d) amend and fund the GSM-301 three- to ten-year export credit guarantee program; e) make it a policy to tie trade and aid together in order to leverage purchase of U.S. agricultural products on a commercial basis using appropriate mixes of PL-480, Food for Progress, Economic Support Funds (SD), Commodity Import Program (CIP), GSM-5, GSM-102, and GSM-301 programs; f) compensate for the high value of the dollar, which in reality is an export tax, by mandating an export restitution or monetary compensatory program; and g) expand and reform PL-480 to combat short-term hunger and malnutrition.

Thank you for providing this opportunity to testify.

STATEMENT OF DR. RAY DANIEL, VICE PRESIDENT AND MANAGING DIRECTOR, INDUSTRY AND AGRICULTURAL SERVICES, CHASE ECONOMETRICS, BALA CYNWYD, PENNSYLVANIA

Factors Impacting the Competitiveness
of U.S. Farmers in World Markets

During the 1970s and early 1980s unprecedented changes occurred in the international markets for U.S. agricultural products. Exports have become a major source of growth for U.S. farm products, increasing from $7.8 billion in 1970 to a peak of $44 billion in 1981. The production from approximately one-third of U.S. cropland is now exported.

However, since 1981, U.S. agricultural exports have declined to $37 billion. All major U.S. crops have experienced a drop in exports since 1980/81. These recent collapses in agricultural exports have raised concern about the competitiveness of U.S. farmers in world markets.

For example, U.S. market share of coarse grains (feed grains) has dropped from 64% in the 1980/81 crop year to 60% in the 1982/83 to 1983/84 period. The U.S. market share of wheat trade has declined from 48% to 1981/82 to 38% during the current marketing year (Tables 1 and 2).

This collapse in market share would indeed imply that the U.S. farmer's ability to compete in world trade has eroded during the past three to five years. The issue of whether the U.S. farmer has lost his competitive position in world trade has significant ramifications for the future of not only U.S. farmers, but also for rural America, especially the Midwest and major U.S. farm states.

The observed loss in market share and the recent doubling of wheat imports into the U.S. while the United States continues to carry high wheat inventories certainly implies that a major change has occurred in world agricultural trade and this change is reducing the ability of U.S. farmers to sell their products in world markets. Several sectors of goverment, agribusiness and even farm organizations have warned about a significant change in the competitive relationship of U.S. farmers compared to other major producers. The current evidence does not refute that claim.

We must therefore determine what factors have apparently reduced the competitiveness of U.S. farmers in world markets.

The major factors which impact the competitiveness of U.S. farmers in world markets are:

1. Barriers to trade
2. Value of the U.S. dollar
3. U.S. farm prices
4. U.S. production costs versus competing countries

The major determining factor of whether one farmer in one state or country is competitive with another is usually determined by a comparison of production costs. However, we were unable to obtain true measures of production costs from other countries. Therefore, we must rely on other factors affecting competitiveness such as trade barriers, government, subsidies, and equivalent prices at the purchaser's port of entry in a standard currency. Also, we must determine which factors have dramatically changed during the last five years and subsequently reduced the U.S. farmer's competitiveness in world markets.

Since 1979, we continue to have strong trade barriers against U.S. farm commodities. For example, over 90% of all countries buying U.S. grain have either tariffs, import subsidies for their farm products, or import restrictions. Two good examples are the European Common Market and Japan, (Appendix A).

Another significant factor has been U.S. government intervention in foreign markets. The Soviet grain embargo reduced U.S. market share of U.S.S.R. grain imports from a 70% average in 1976 to 1978 to less than 40% in 1983. Similar embargos have hurt U.S. farmers by making them an unreliable supplier and stimulating production in other countries, Figure 1.

Long-term trade agreements by non-U.S. exporting countries with major grain importers have also reduced the competitiveness of U.S. farmers, who are prevented from using such marketing agreements.

However, the single most dramatic change which has occurred since 1979 has been an explosion in the value of the U.S. dollar. For example, the value of the U.S. dollar in countries where corn is sold has increased by approximately 150% since 1979. The value of the U.S. dollar in countries where soybeans and wheat are sold has increased by at least 60%. When comparing the dollar relative to the value of one of our new emerging competitors--Argentina--we find that the ratio of the Argentinian peso to the U.S. dollar has more than doubled since the 1979-81 period (Figures 2 to 8). U.S. interest rates also exploded to record levels during this period. Even after the recent decline in interest rates, real interest rates continue to remain above pre-1979 level.

However, farm corn, wheat, cotton and soybean prices have remained relatively flat and have recently declined from 1980/81 levels. Real farm prices (1972$) have collapsed to pre-1972 levels, Figures 9 to 16.

In conclusion, it appears that U.S. farmers have indeed become less competitive in world markets. But, the problem has not been increases in U.S. farm commodity prices, since real farm prices (1972$) have actually collapsed to pre-1972 levels. The major contributing factors to the U.S. dollar, high real interest rates, government trade barriers, and finally, U.S. government embargos of agricultural shipments into major markets.

Figure 1

USSR IMPORTS OF WHEAT AND COARSE GRAINS

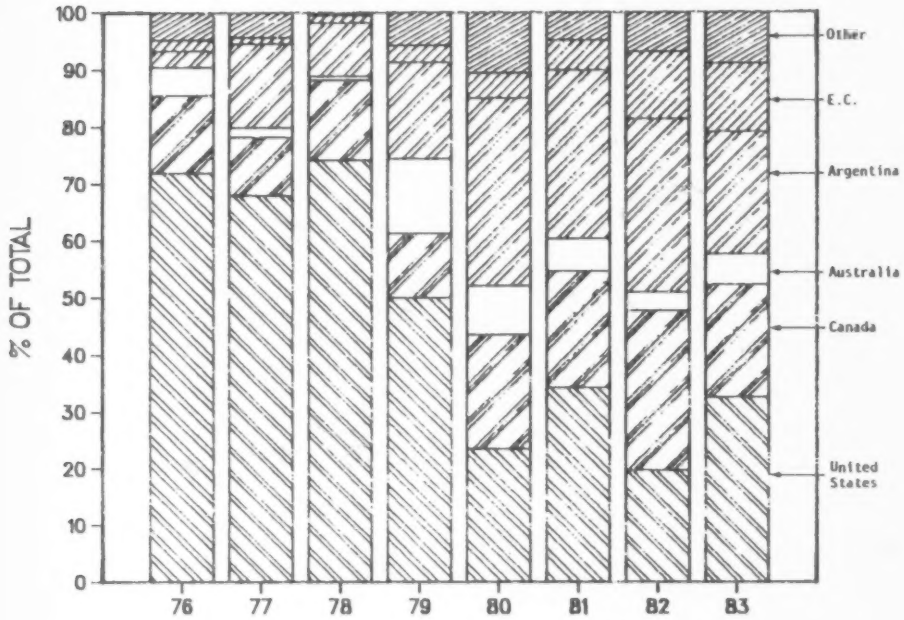


Figure 2

WHEAT TRADE-WEIGHTED VALUE OF THE DOLLAR

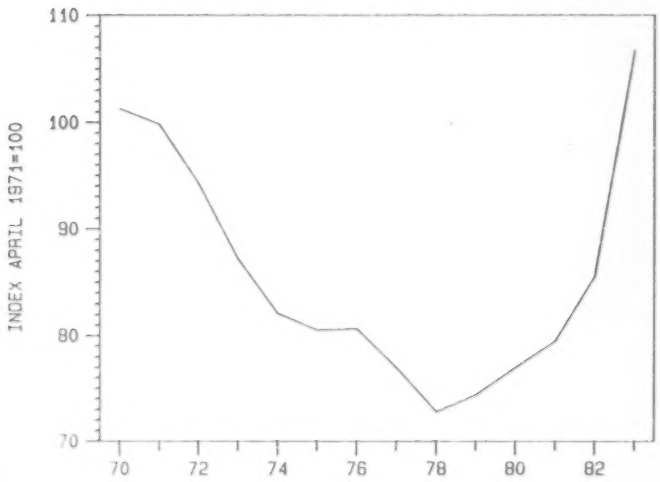


Figure 3
TRADE WEIGHTED VALUE OF THE DOLLAR: SOYBEANS

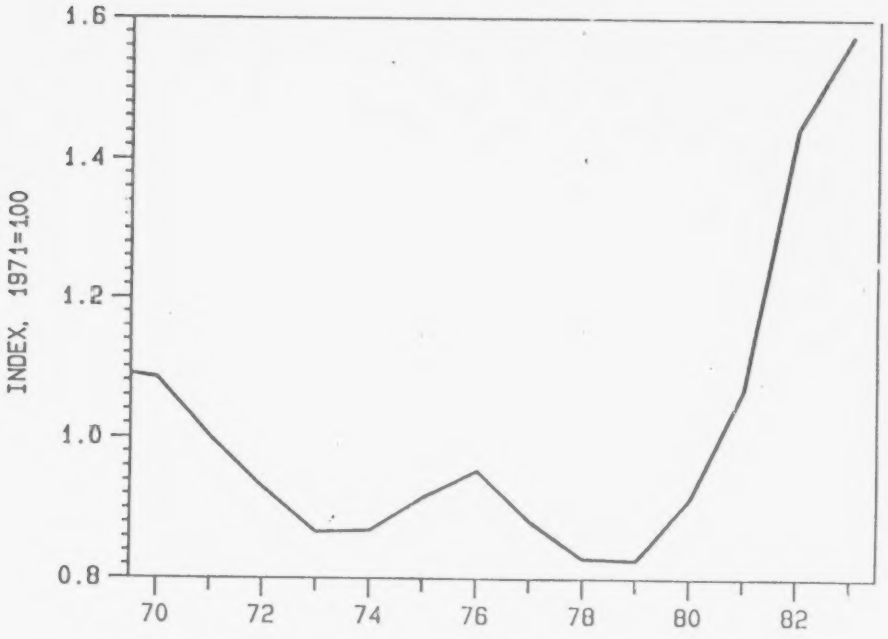


Figure 4
TRADE WEIGHTED NOMINAL VALUE OF THE DOLLAR: CORN

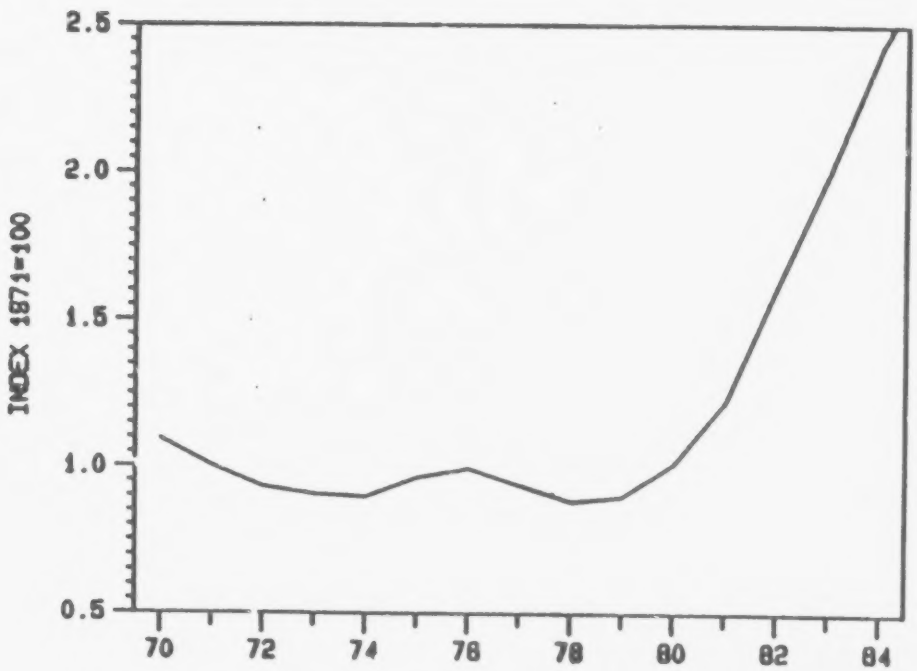


Figure 5

TRADE WEIGHTED REAL VALUE OF THE DOLLAR: CORN

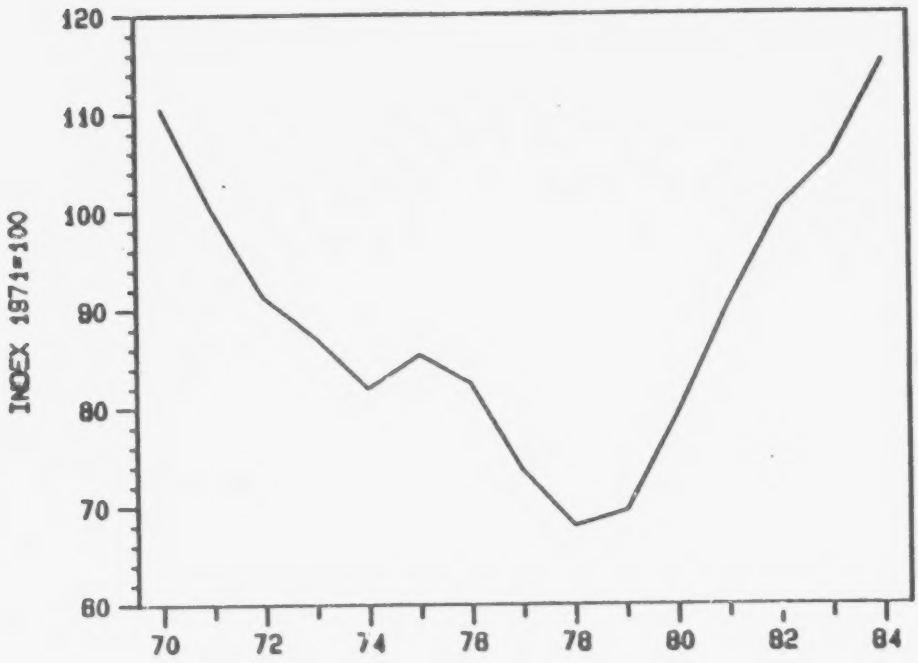


Figure 6

U.S. DOLLAR VS. ARGENTINA PESO, PESO/U.S.$
ADJUSTED BY RELATIVE INFLATION

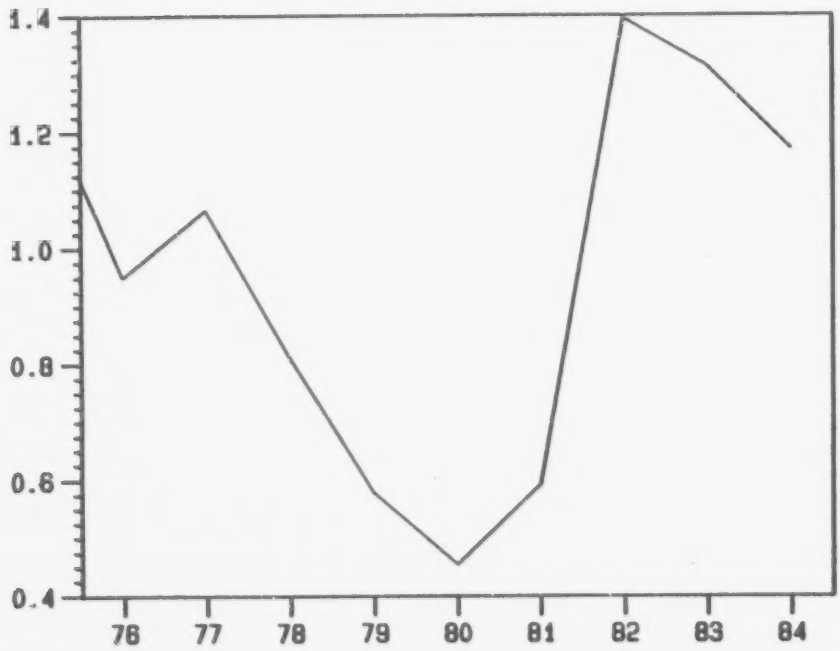


Table 1
World Coarse Grain Exports
1980/81 to 1984/85[a]
(mmt)

	1980/81	1981/82	1982/83	1983/84[b]	1984/85[b]
Argentina	14.2	10.3	11.6	12.0	11.2
Canada	5.5	7.2	7.0	6.7	4.7
South Africa	4.1	4.7	2.3	0.1	0.2
Australia	2.3	3.4	0.9	4.6	4.3
Thailand	2.4	3.5	2.4	3.0	3.2
Subtotal	28.4	29.1	24.3	26.4	23.6
Others	11.1	11.4	13.3	8.7	11.2
Non-U.S.	39.4	40.5	37.6	35.1	34.8
U.S.	69.5	58.4	54.0	56.0	60.2
World Total	109.0	98.9	91.6	91.5	95.0
U.S. Share, %	63.8	59.0	59.0	61.2	63.3

Source: World Grain Situation and Outlook USDA FAS November 1984

[a] October to September marketing year
[b] CE projections

Figure 7
REAL EXCHANGE RATES VS. WORLD IMPORTS
COARSE GRAIN

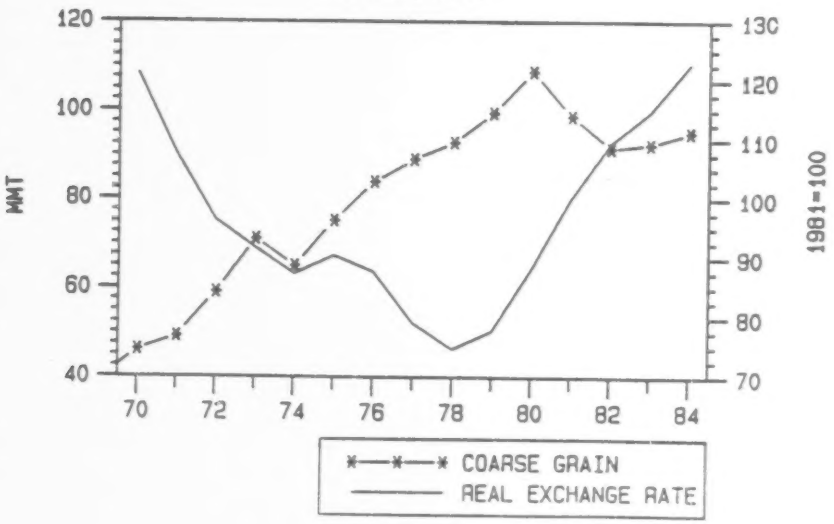


Table 2
World Wheat Exports, 1980/81 to 1984/85[a]
(mmt)

	1980/81	1981/82	1982/83	1983/84[b]	1984/85[b]
Australia	10.6	11.0	8.1	11.6	14.7
Canada	17.0	17.6	21.2	21.8	17.8
EC-10	14.7	15.5	15.5	16.0	18.7
Argentina	3.9	4.3	7.5	9.6	7.5
Subtotal	46.2	48.4	52.3	59.0	58.7
Others	6.0	4.1	6.1	5.1	5.7
Non-U.S.	52.2	52.5	58.4	64.1	64.4
U.S.	41.9	48.8	39.9	38.9	39.6
World Total	94.1	101.3	98.3	103.0	104.0
U.S. Share	44.5	48.2	40.6	37.8	38.1

[a] July to June marketing year
[b] CE projections

Figure 8
REAL EXCHANGE RATES VS. WORLD IMPORTS
WHEAT

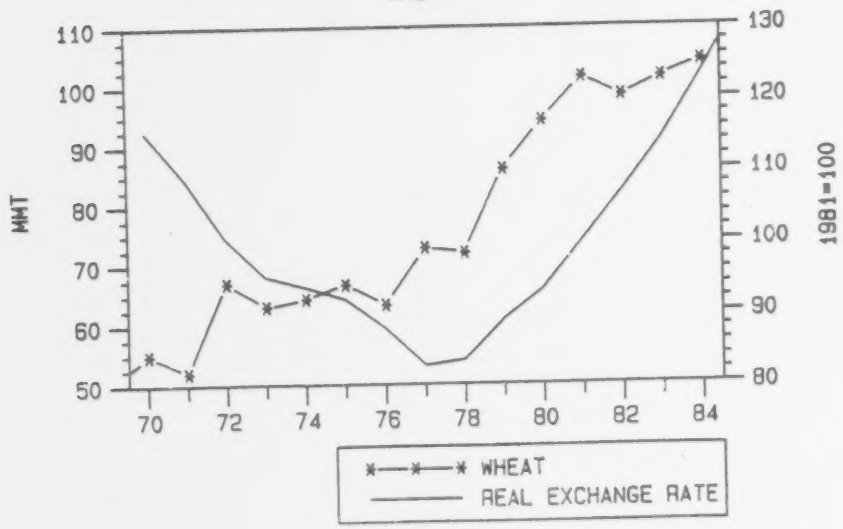
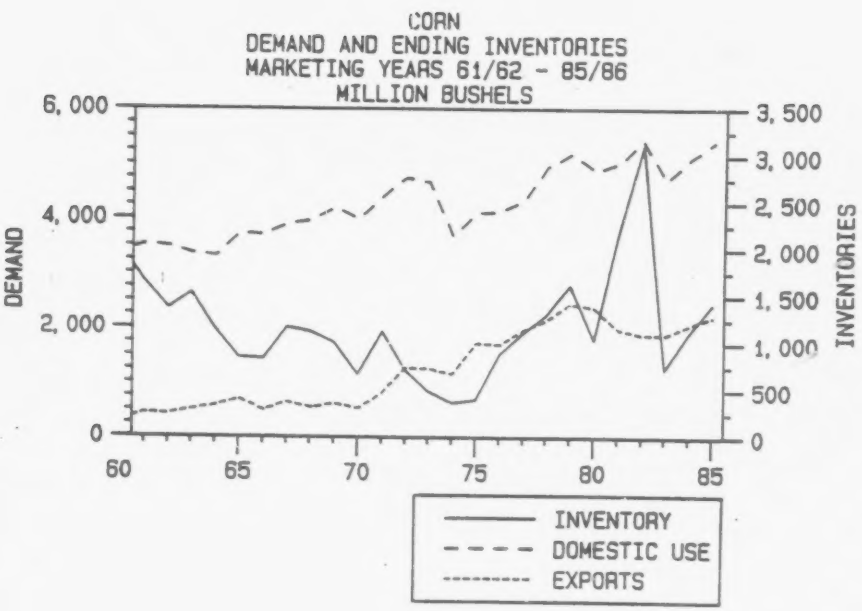


Figure 9


CORN
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BUSHELS
DEMAND
INVENTORIES
6, 000
4, 000
2, 000
0
3, 500
3, 000
2, 500
2, 000
1, 500
1, 000
500
0
60
65
70
75
80
85
INVENTORY
DOMESTIC USE
EXPORTS

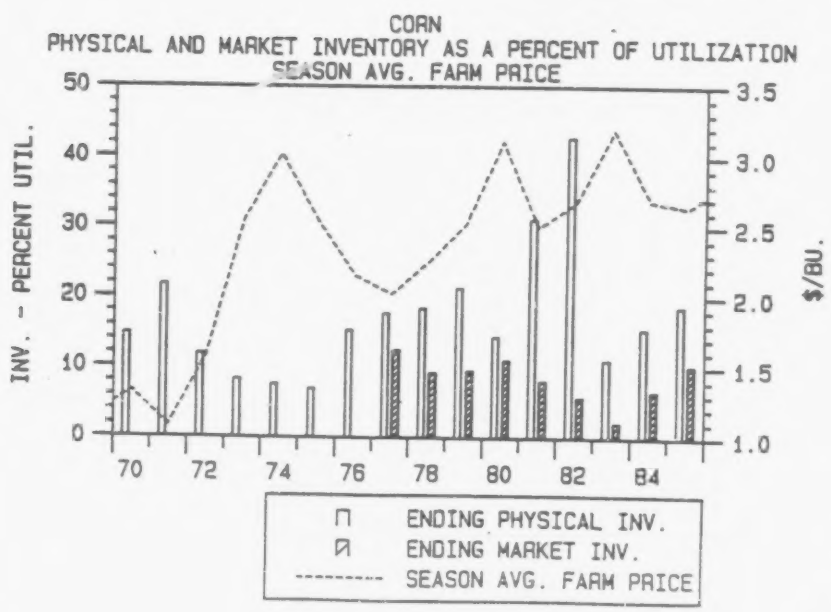

CORN
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
SEASON AVG. FARM PRICE
INV. - PERCENT UTIL.
$/BU.
50
40
30
20
10
0
3.5
3.0
2.5
2.0
1.5
1.0
70
72
74
76
78
80
82
84
ENDING PHYSICAL INV.
ENDING MARKET INV.
SEASON AVG. FARM PRICE

Figure 10

CORN
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE

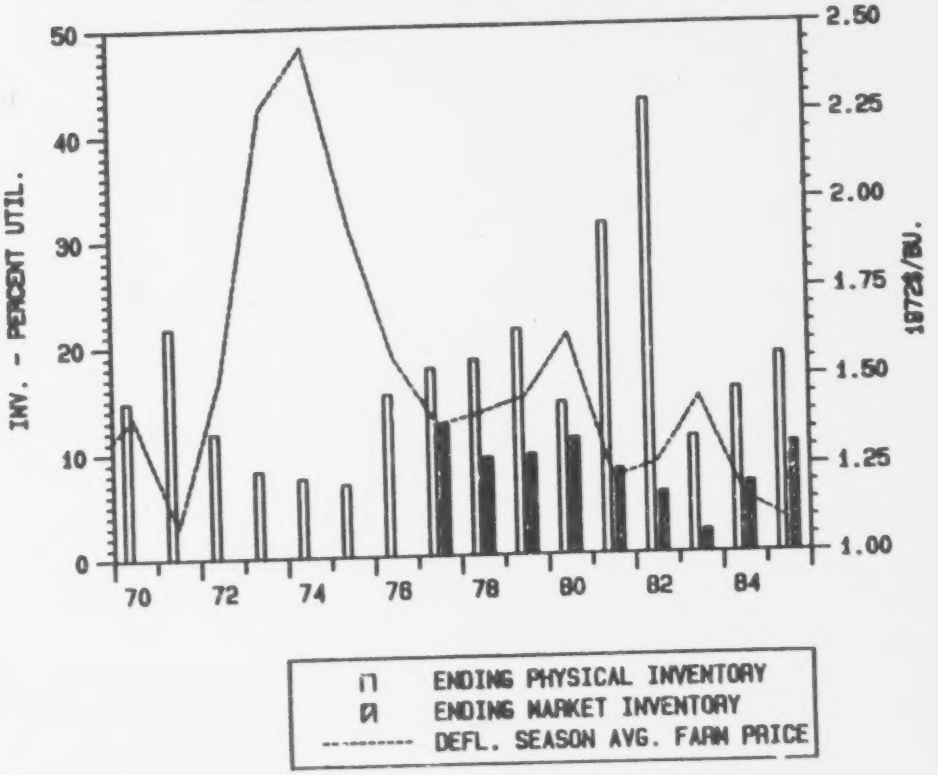
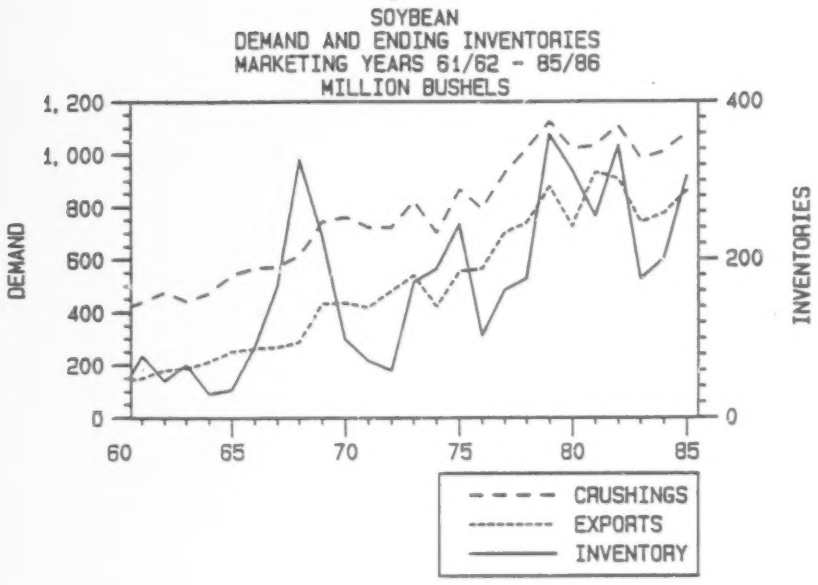


Figure 11


SOYBEAN
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BUSHELS
DEMAND
INVENTORIES
1,200
1,000
800
600
400
200
0
400
200
0
60
65
70
75
80
85
CRUSHINGS
EXPORTS
INVENTORY

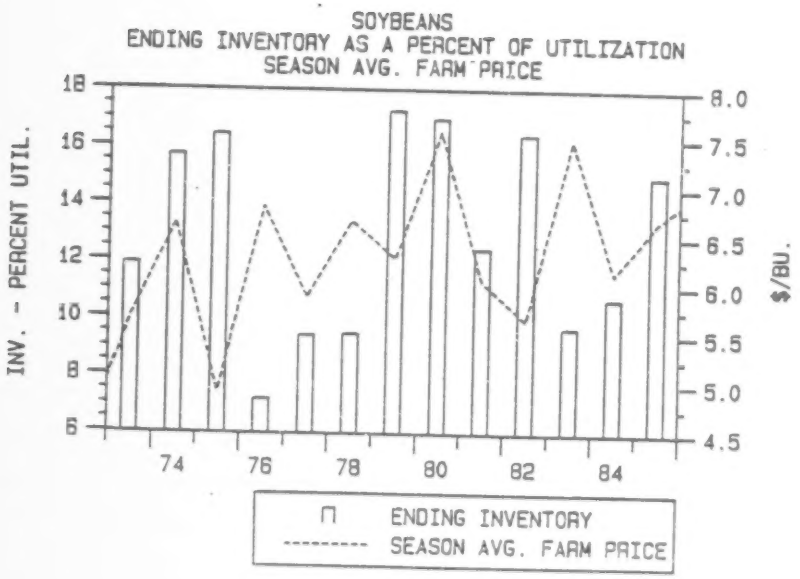

SOYBEANS
ENDING INVENTORY AS A PERCENT OF UTILIZATION
SEASON AVG. FARM PRICE
INV. - PERCENT UTIL.
$/BU.
18
16
14
12
10
8
6
8.0
7.5
7.0
6.5
6.0
5.5
5.0
4.5
74
76
78
80
82
84
ENDING INVENTORY
SEASON AVG. FARM PRICE

Figure 12

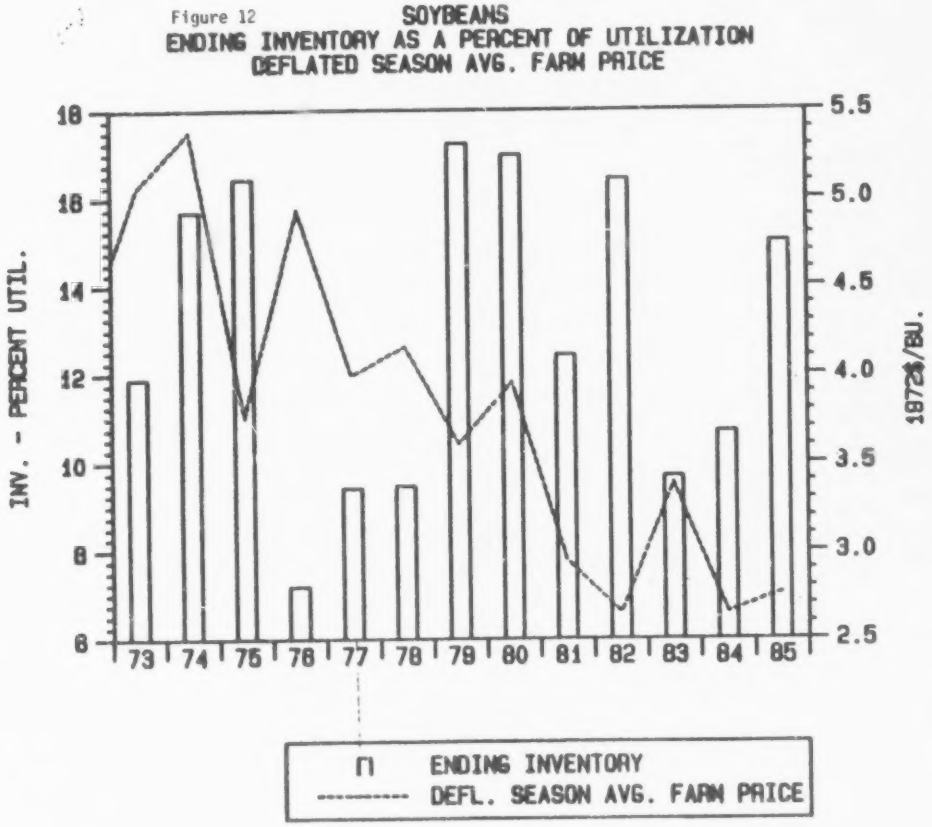

SOYBEANS
ENDING INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE
INV. - PERCENT UTIL.
1972¢/BU.
18
16
14
12
10
8
6
5.5
5.0
4.5
4.0
3.5
3.0
2.5
73
74
75
76
77
78
79
80
81
82
83
84
85
ENDING INVENTORY
DEFL. SEASON AVG. FARM PRICE

Figure 13
PRICE OF COTTON, AVERAGE SPOT MARKET
(STRICT LOW MIDDLING, 1-1/16)

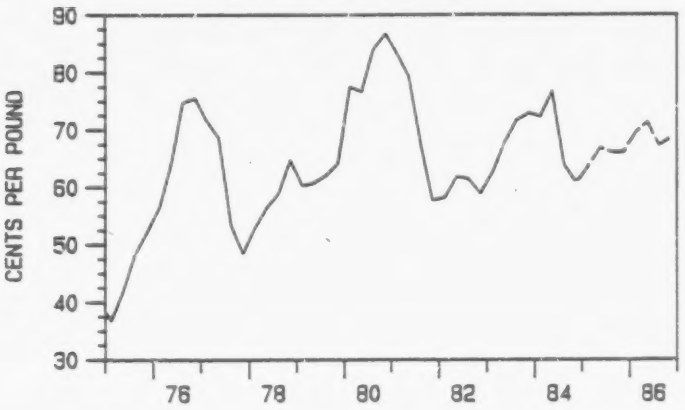


Figure 14
COTTON
DEMAND AND ENDING INVENTORIES
MARKETING YEARS 61/62 - 85/86
MILLION BALES

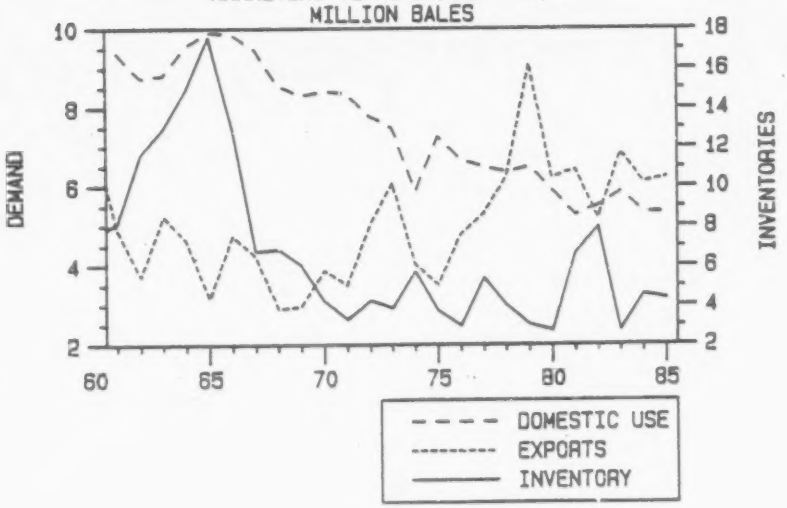


Figure 15

PRICE OF WHEAT
NUMBER 1, HRW, KANSAS CITY

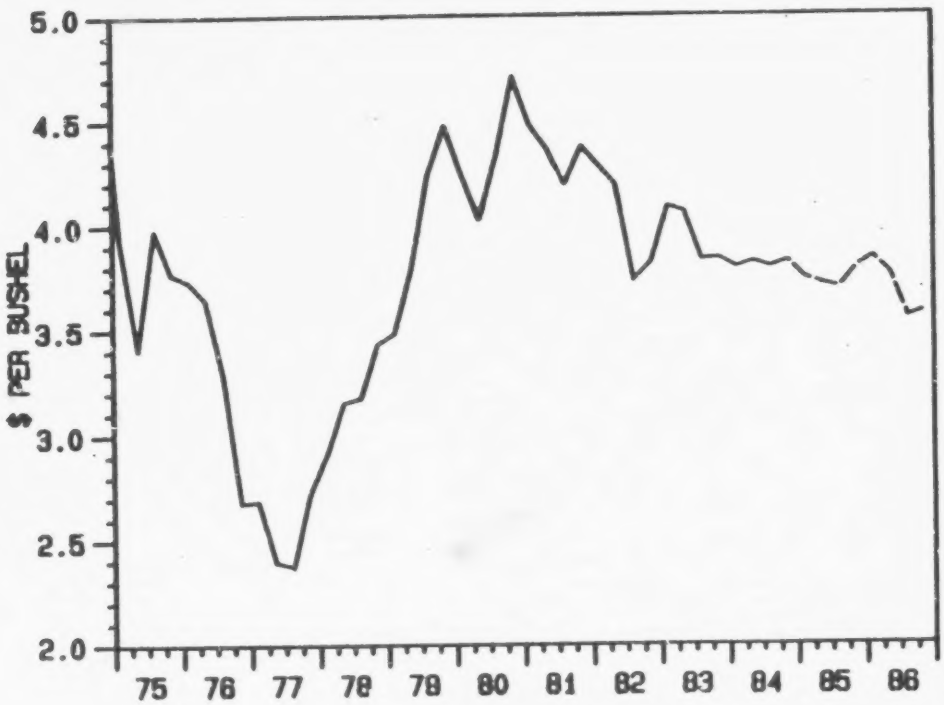
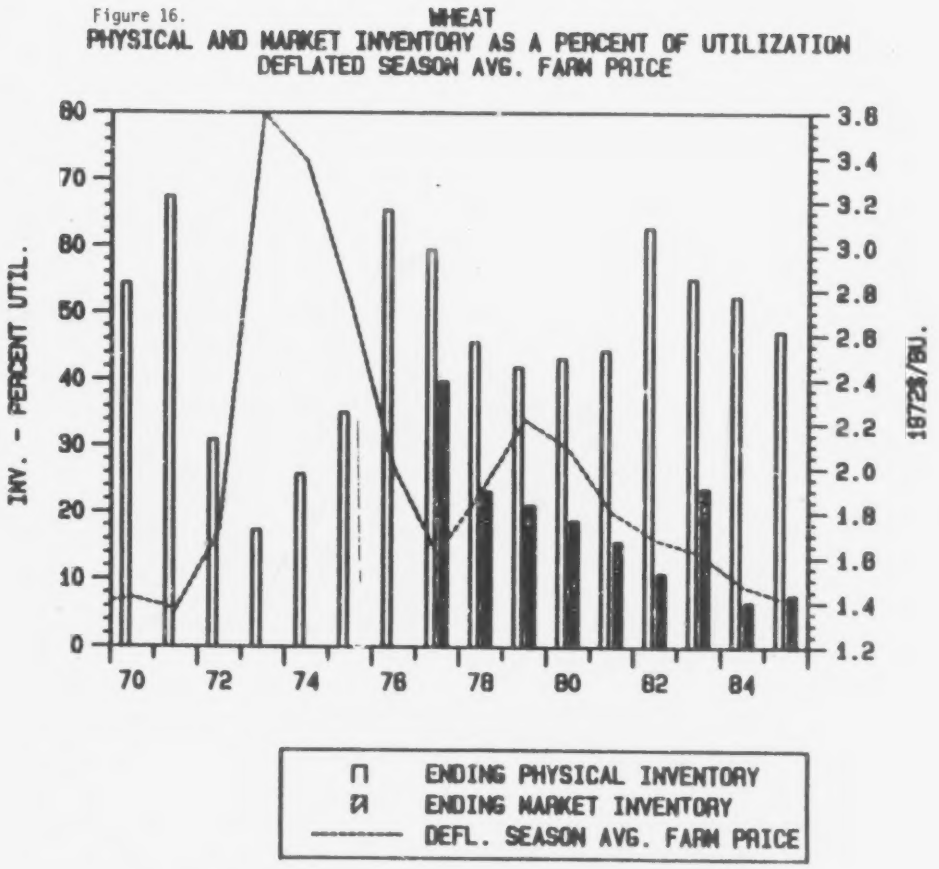
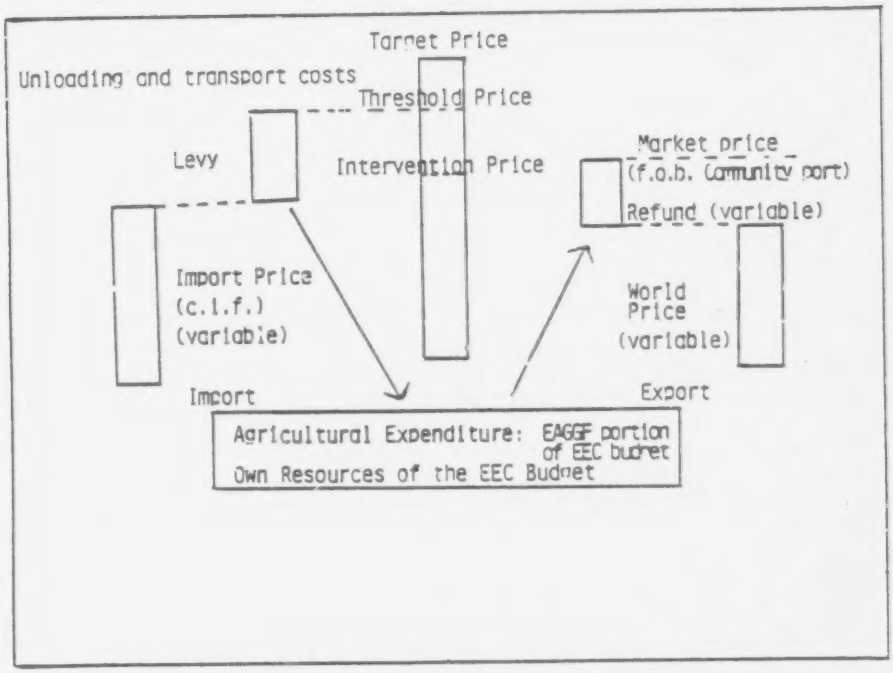


Figure 16.


WHEAT
PHYSICAL AND MARKET INVENTORY AS A PERCENT OF UTILIZATION
DEFLATED SEASON AVG. FARM PRICE
INV. - PERCENT UTIL.
1972$/BU.
0
10
20
30
40
50
60
70
80
1.2
1.4
1.6
1.8
2.0
2.2
2.4
2.6
2.8
3.0
3.2
3.4
3.6
70
72
74
76
78
80
82
84
ENDING PHYSICAL INVENTORY
ENDING MARKET INVENTORY
DEFL. SEASON AVG. FARM PRICE

APPENDIX A—RESTRICTIONS ON FREE TRADE IN WHEAT MARKETS BY COUNTRIES

E.E.C. Wheat Policy



STATEMENT OF RICHARD BELL, PRESIDENT, RICELAND FOODS, CHAIRMAN, AGRICULTURAL AND TRADE POLICY COMMITTEE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, I am Richard Bell, President of Riceland Foods, Inc. and Chairman of the Agriculture and Trade Policy Committee of the National Council of Farmer Cooperatives. I appreciate this opportunity to testify.

Riceland Foods, Inc. is a farmer owned cooperative which receives, stores, processes and markets rice, soybeans, wheat and feed grains grown principally in Arkansas but also in Missouri, Mississippi, Louisiana and Tennessee. We traditionally market ½ of the rice, ⅓ of the soybeans and ⅛ to ¼ of the wheat grown in our oprational area. Our annual sales average $630 million. The mission of Riceland Foods, Inc. is to provide a reliable market service for our more than 12,000 farmer members, and our goal is to maximize returns for the crops they deliver.

We are members of the National Council of Farmers Cooperatives, which is an association of cooperative businesses owned and controlled by farmers. It represents about 90% of the 6,100 local farmer cooperatives in the nation, with a combined membership of nearly two million farmers.

I commend you for calling today's hearing on the competitiveness of U.S. agriculture in the world environment. The question of U.S. competitiveness is a crucial one. It is central to our immediate strategies as well as our long-range planning for agriculture, business, and the design of government farm programs.

On January 21, 1985, the National Council's Agriculture and Trade Policy Committee adopted a policy statement which begins as follows:

"In 1985, new farm legislation should be based on policy objectives which reflect the changing global economics of agriculture today. In addition to the traditional goals of farm policy:

(1) Provide stability, support, and protection for farmers and farm income;

(2) Maintain balanced and adequate supplies of food and fiber; and
(3) Assure the orderly marketing and distribution of farm products;

We need to add a fourth:

4) Assure that U.S. agriculture is competitive in world markets."

We believe that as farmers seek to expand exports, the U.S. government should provide them economic help which enhances their competitive edge, rather than detracts from it.

American farmers have long prided themselves as the most efficient and productive producers of food and fiber in the world. That distinction was not easily achieved—in fact, it was reached at the cost of years of investment in agricultural research and adoption of mechanization and technology.

Since the turn of the century, economic adjustments occurred which forced 5 million farmers off the land. These adjustments were quite costly in human terms.

Out of all this came a sector in which productivity and efficiency in farming have dramatically increased. American agriculture has been envied the world over.

Today, our competitive edge is again being threatened. A headline for an article in the Monday, January 14, 1985 issue of the Wall Street Journal (copy attached) put it bluntly: "U.S. Isn't Any Longer Cheapest Source of Some Kinds of Grain for Domestic Use".

The economic competitiveness of U.S. agriculture varies from sector to sector and depends on a variety of factors. Even so, there is no question that total U.S. agricultual exports have declined.

VALUE AND QUANTITY OF U.S. AGRICULTURAL EXPORTS BY FISCAL YEAR, 1980–84

Year	Value (billions)	Quantity (million metric tons)
1980	$40.48	163.9
1981	43.78	162.3
1982	39.09	157.9
1983	34.78	144.8
1984	38.00	141.0

From 1981 to 1983 alone, the value of U.S. farm exports fell by more than $9 billion and the volume fell more than 19 million metric tons.

The decline in exports is attributed to several factors: worldwide economic recession, debt problems of developing countries, increased foreign production, inflexible U.S. farm programs, production and trade practices of foreign countries, the rapid appreciation of the U.S. dollar, and the grain embargo of 1980. Some of these factors affect total demand for farm exports, while others affect the U.S. share of whatever demand exists.

Historically, competitiveness is affected by the relative costs of producing crops in various countries. Our farmers' production costs are influenced by government regulation or improved techniques developed by agricultural research.

In the past, we have judged competitiveness based on the simple criteria of comparative advantage, open market economies, and least-cost pricing. Today, we must consider the impact of major new factors on our competitive position, and so I will deal with these:

(a) the over-valued dollar, and
(b) unfair foreign trade practices.

THE OVER-VALUED DOLLAR

Perhaps the most important emerging influence on our competitive position is a relatively new factor which is external to agriculture: the over-valued dollar. Since 1980, the value of the dollar has leaped by approximately 70% in nominal terms.

Between January 1980 and December 1983, the value of the dollar adjusted for inflation went up by 45%. During that same period, the price of corn, for example, fell by 5%. Despite the fall in U.S. corn prices, the price of corn to foreign buyers in terms of their currencies by rising. Importing countries in 1983 were paying about 40% more in real terms than they were paying in 1980 to buy U.S. corn. More conservative estimates show an increase of about 30%.

Attached are two charts which demonstrate that the U.S. price for corn and wheat is much more expensive for foreign buyers in terms of the Japanese yen and the deutsche mark.

Such an increase in currency values severely damages the competitive standing of U.S. exporters, since a rise in the value of the dollar raises the effective price to foreign customers. It chokes off import demand in those countries that let the world price be reflected domestically. In fact, as the price rises in dollar-valued terms, it will stimulate additional production in other countries.

In a paper presented on January 28, 1985, one leading economist summarized the consequences of a strong dollar in this way: "An over-valued exchange rate constitutes an implicit export tax for export sectors and an implicit import subsidy for import sectors." The evidence of that statement is clear. U.S. exporters are now finding their exports reduced, and U.S. producers of import-sensitive specialty crops are finding an influx of imports at the same time.

That is a double-whammy on U.S. farmers at a time when they can least afford it. Beyond that, it is a result of macro-economic policy, not of farm policy. It overshadows the usual economic questions of relative efficiency or market fundamentals.

If the government is going to saddle farmers with these adverse macro-economic conditions, then the government has a responsibility to help farmers overcome their adverse effects.

UNFAIR FOREIGN TRADE PRACTICES

U.S. farmers have repeatedly stated that they are willing to compete in world markets with anyone, as long as the competition is fair. Today, the competition is unfair. World markets are distorted by trade barriers in other countries, foreign export subsidies, bilateral agreements, state trading companies, and internal subsidies to producers in other countries.

While our farmers are willing to compete in world trade with foreign producers, it is unfair to ask them to compete against the treasuries of foreign governments as well.

The practices of the European Community are the most flagrant examples of direct subsidy payments. Not only does the EC impose variable levies on imports into the Community, it provides restitution payments to exporters for shipping their excess supplies into world markets. This maintains high internal price levels within the EC and uses export subsidies to dump the surplus.

In 1983, EC expenditures on export restitution payments totaled $5.4 billion. Export subsidies on rice, for example, have been more than $200 per ton.

Of course, there are a host of other trade-distorting practices employed by foreign governments. Examples may include quantiative import restrictions on beef and citrus into Japan, non-tariff barriers, and subsidized credit, freight rates, processing, or production inputs. Beyond that, there are bilateral agreements and state trading agencies which force trade to occur through uneconomic channels.

The General Agreement on Tariffs and Trade has proven highly unsatisfactory in responding to unfair practices. The guidelines in the Subsidies Code, for example, are too vague and the procedures too unwieldy to provide much hope of timely, effective relief from unfair trade.

Because of these unfair trade distortions, the U.S. government again must act so that American competitiveness is based as much as possible on a framework of fair trade.

WHY IS COMPETITIVENESS IMPORTANT?

The National Council of Farmer Cooperatives has emphasized the new goal of competitiveness because it is vital to the long-term economic health of agriculture. Of course, today competitiveness must be viewed in the broad sense to include factors beyond the usual market considerations, such as macro-economics, unfair trade practices, and so forth.

Our competitive position will determine whether agriculture as a sector can expand and capture export markets or be forced to retrench.

The U.S. domestic market for farm products is expected to be stable through this century. As a result, growth in demand for U.S. farm products must be found in world markets, where our competitiveness is crucial.

Agricultural exports are vital to our national economy. Farm exports account for ¼ of farm income and ⅓ of all export shipping. They move through 15,000 elevators, 489 terminals, over 4.1 million miles of roads, tracks and canals, and directly support over one million jobs.

The future path of the U.S. agricultural economy can take one of two courses: it can ignore competitive pricing in world markets and attempt to insulate itself, or it can seek to meet the competition in world markets.

The former will mean a gradual stagnation in our agricultural base, with our farm sector "dying on the vine"; the latter course is a growth-oriented policy which offers farmers a long-term opportunity for profit.

We choose the growth alternative, since our farmer-owners must have a growing economy in order to survive and prosper. In order for growth to occur, however, we must have government actions to counter the adverse effects of the over-valued dollar and the unfair trading practices of other countries. Because of these external effects on competitiveness, the U.S. must be prepared to stand by our farmers so that our competitive edge can work.

A CALL TO ACTION

Action is needed now to address both the short and long-term needs of a competitive agriculture:

(1) Establish improved monetary and fiscal policies to improve macro-economic conditions in order to reduce interest rates and bring the over-valued dollar into better balance with foreign currencies.

(2) Operate domestic farm programs in such a way that farmers receive income protection while allowing their commodities to move into world markets. Specifically, USDA could offer farmers non-recourse "marketing loans" on their commodities which would be repaid based on the loan rate or the market price for the commodity, whichever is less. This would allow farmers the assurance of the original value of the loan, but avoid market interference by allowing loans to be repaid based on market prices for the commodity. Commodities redeemed at market price levels can be resold by farmers at competitive world price levels, rather than held in government storage at taxpayer expense.

(3) Establish an aggressive Trade Title in the 1985 farm bill to counter unfair trade practices, enhance world demand, and compensate for the effects of the over-valued dollar. (Attached is a summary of NCFC's trade proposals, adopted on January 21, 1985.) Specifically, the legislation should provide for a spectrum of export credit programs tailored to fit the diverse needs of recipient countries, designed to move those nations from "aid" to "trade" in their relationship with the U.S. New programs to be included would be a continuous line of credit guarantees and an intermediate credit guarantee program. The P.L. 480 program should be expanded and improved, with an emphasis on multi-year programming and infrastructure development in recipient countries. An Export PIK program should be authorized and implemented. The U.S. must respond firmly to unfair foreign trade practices.

(4) Work to reduce upward pressures on farmers' costs of production through improved research and other policies. We should avoid unnecessary government regulations or other external costs onto the agricultural ssytem, and strengthen support for agricultural research. The focus should be on improved technology which can reduce farmers' production costs.

SUMMARY

Competitiveness today is heavily influenced by non-agricultural factors such as macro-economic policy, the over-valued dollar, and unfair foreign trade practices.

Since the government has imposed the problems caused by the over-valued dollar, then the government has a responsibility to remedy them. Short-term remedies include (a) domestic farm policies which support farmers while allowing their products to be competitive in world markets, and (b) an aggressive Trade Title in the 1985 farm bill including a spectrum of credit guarantee programs.

Long-term remedies to improve our competitive position include improved macro-economic policies, an aggressive trade position by the U.S., an end to export embargoes, and strengthened agricultural research.

In summary, the competitive position of U.S. agriculture has been strong, but we dare not afford to be complacent about it. World competitiveness is dynamic, and it will require our best ongoing efforts to meet the challenges of a world economy.

[Reprint from the Wall Street Journal, Monday, Jan. 14, 1985]

U.S. Isn't Any Longer Cheapest Source of Some Kinds of Grain for Domestic Use

(By Wendy L. Wall)

Chicago.—The U.S., long the world's breadbasket, isn't any longer the cheapest source of some grains, even for domestic use.

That fact was driven home last week by Cargill Inc.'s plan to import Argentine wheat. Farm Belt outrage forced Cargill to cancel the Argentine proposal, but grain merchants say the issue will arise again.

The strong dollar, the aggressiveness of foreign competitors and other factors have seriously eroded U.S. competitiveness in farm trade, which contributed about $19 billion last year to the U.S. balance of trade. U.S. farmers' heavy debt and relatively high land prices have raised production costs here, and grain merchants and some others contend that farm price-supports also boost U.S. prices, making grain grown here less competitive.

BEGINNING TO FACE DECISIONS

As a result, grain merchants are beginning for the first time to face decisions about whether to import cheap foreign grain for domestic processing into feeds, oils and flour.

If a contract were signed today, soybeans produced in Argentina or Brazil could be delivered to U.S. Atlantic ports next July less expensively than U.S. soybeans, merchants say. A St. Louis elevator already has purchased Swedish oats that are cheaper—and higher quality—than those grown in neighboring states, although that was partly because of poor U.S. weather. Before the year is out, a similar situation could develop for Latin American corn, sorghum and even Thai rice in some locations, say officers of several grain companies and a major farm organization.

And despite Cargill's cancellation of its planned shipment of Argentine wheat to the U.S., the importation of Argentine wheat to coastal ports remains profitable. Cargill's merchants found that Argentine wheat could be shipped to U.S. ports on the Gulf of Mexico for 4% to 8% less than comparable U.S. varieties, even with hefty duties at both ends. If the price of the Argentine wheat—which has already plunged about 25% in two months—tumbles by roughly another 10%, grain merchants say it would compete favorably in mills in Kansas, the heart of wheat country.

These developments have focused attention on the long-term impact that the dollar's growing strength and current farm policy are having on U.S. agriculture. They also have raised questions about the competitiveness of U.S. farmers, long considered the most efficient in the world.

"What we've got today is some things going on in agriculture that were first borne out in smokestack industry, and in automobiles, and in stereos and TVs," says Dan Huber, president of Cargill's commodity marketing divison, referring to the growing foreign competition that damaged those U.S. industries. Adds Roger Hoskin, an Agriculture Department soybean analyst, "When the river starts to flow backwards, there is something wrong with the plumbing."

GRAIN PRICE SUPPORTS

Fears of farmer protests or political backlash are likely to keep major U.S. grain companies from importing large amounts of foreign grain soon. However, world grain trade statistics clearly underline the shifting competitive balance.

In the past five years, the U.S. share of world trade in grain, its principal farm export, has tumbled about 12% to an estimated 48% for the year ending next Sept. 30. The decline would have been even steeper except for generous export credit programs, used heavily by cash-strapped Third World countries.

And, in addition to the strength of the U.S. dollar, foreign producers get a boost from current U.S. grain price supports, which some industry sources contend keep U.S. prices artificially high. Various reserve programs are keeping much U.S. grain off the market until prices rise. As of Sept. 30, 87% of the nation's corn was locked up in such reserves, while 41% of its wheat was stored in reserves a month later, according to John Urbanchuk of Wharton Econometric Forecasting Associates.

Some merchants and farm groups worry that those factors mask a deeper problem: a decline in the competitiveness of U.S. farmers in comparison with farmers in emerging grain-exporting nations. Southern Hemisphere countries are boosting their crop yields through expanded use of fertilizer and technology. At the same time, comparatively high land values, bloated debt burdens and more expensive equipment and supplies are keeping U.S. farm costs high, says Michael Hall, executive vice president of the National Corn Growers Association. U.S. farmers produce the most grain an acre, "but at what price?" he asks.

Russell Bragg, vice president of grain merchandising at Pillsbury Co., is more blunt: "At the farm gate, a bushel of wheat or corn is probably produced cheaper in the Latin American countries than in the U.S.," he declares.

Kenneth Bader, executive director of the American Soybean Association, acknowledges that this is possible in the case of soybeans. But he adds that this is mostly because of government incentives in those countries, which reduce farmers' debt-service costs and encourage them to clear more land, holding down land prices.

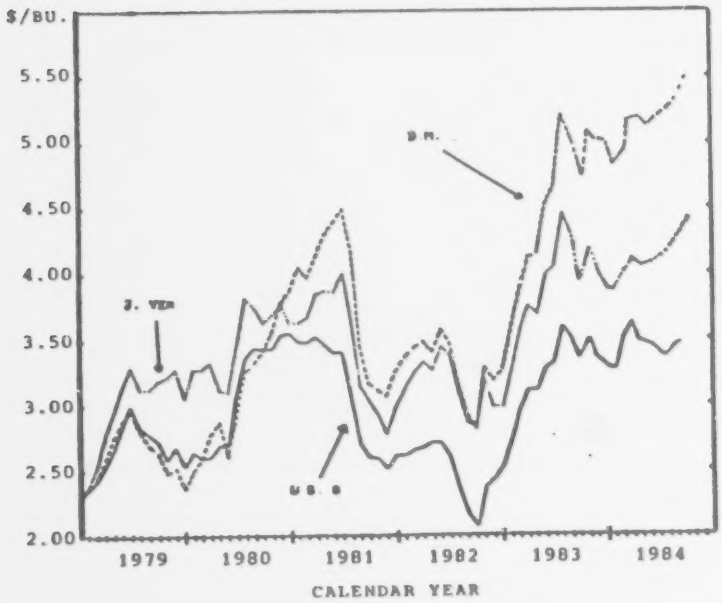
The rising competition is sure to spark heated debate over the 1985 farm bill. Many grain merchants back a reduction in farm price-supports; they stand to benefit from lower-priced grain for trading and processing. The merchants argue that U.S. farmers would be more competitive if they were fully exposed to world market conditions.

However, Jim R. Billington, international trade representative for the National Association of Wheat Growers, charges that such changes would plunge the farm economy into an even deeper depression and destablize world grain trade. Argentine wheat farmers are "held hostage by the grain companies," he says. "That's the situation we'd be in if we didn't have these farm programs."

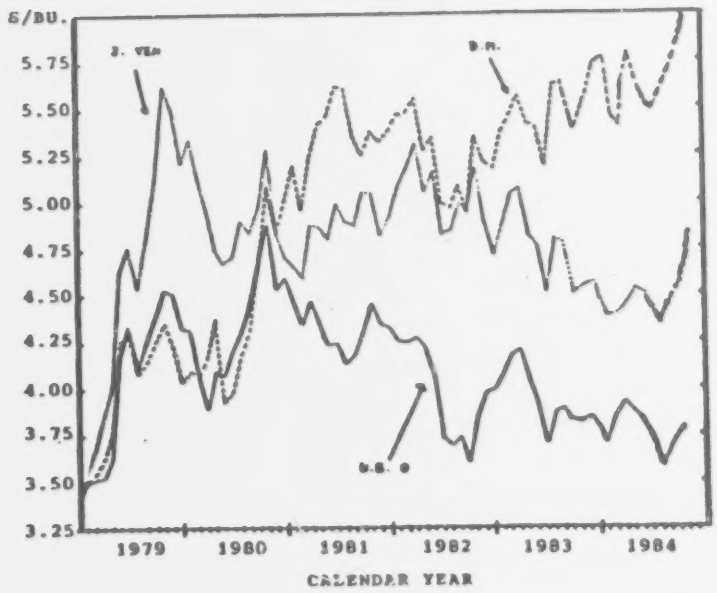
Mr. Bragg says his company has already discussed the issue of Southern Hemisphere imports with several congressmen. "They think it's a short-term thing," he says.

Mr. Bragg doesn't agree. Instead, he compares the situation to the first importation of foreign steel. "On the first few shipments, people said that was just an aberration in the market. But it became a long-term problem," he says. "That's what worries the people in the grain trade—it may be a long-term thing."

U.S. PRICE OF CORN (CHICAGO) ADJUSTED FOR
CHANGES IN FOREIGN EXCHANGE RATES



U.S. PRICE OF WHEAT (K.C.) ADJUSTED FOR
CHANGES IN FOREIGN EXCHANGE RATES



AGRICULTURAL TRADE POLICY

Adopted by the National Council of Farmer Cooperatives
Agriculture and Trade Policy Committee
January 21, 1985

1. Encourage macro-economic policies which reduce interest rates, stimulate economic growth, and bring the over-valued dollar into balance with the currencies of foreign customers.

2. Modify domestic farm policies in 1985 by providing farmers marketing loans or other means to allow U.S. farm products to be competitive in world markets.

3. Establish an aggressive Trade Title in the 1985 Farm Bill. It should include the following:

   A. A spectrum of credit programs (see attached) tailored to fit the diverse needs of other nations, including:

      1. Continuous Commercial Credit line for export guarantees -- six month repayment

      2. Short-Term Credit -- 6 months to 3 year repayment

      3. Blended Credit -- combines interest free direct credit with market rate credit guarantees

      4. Intermediate Credit Guarantees -- 3-10 year repayment

      5. P.L. 480 -- long-term market development and humanitarian aid

   B. Reauthorize the P.L. 480 "Food for Peace" Program, with revisions:

      1. Increased authorization levels

      2. Use of multi-year programming to give foreign recipients more reliable assistance

      3. Inclusion of value-added products

      4. Emphasize market-development

      5. Use to encourage infrastructure improvement to enhance foreign countries' ability to receive U.S. products

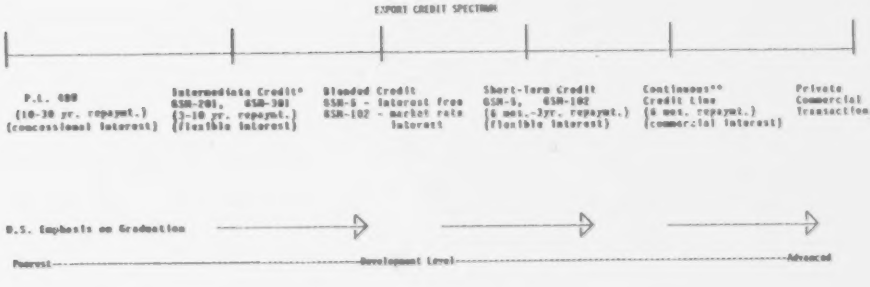
C. Reauthorize and fund Agricultural Export Credit Revolving Fund

D. Specifically authorize an Export Payment-In-Kind program

E. Reaffirm Contract Sanctity and strengthen Embargo Protection provisions

F. Require a report on other countries' unfair trade practices, and press for a firm U.S. response to them

G. Expand overseas commodity donations through expansion of Section 416 authorities to include all CCC stocks



*Including proposed Commodity Intermediate Credit Program

**Proposed New Program

Prepared by National Council of Farmer Cooperatives
October 1984